



REPUBLIC OF ALBANIA
SUPREME AUDIT INSTITUTION

REPORT

**ON THE STATE BUDGET
EXECUTION**

2021

REPORT ON THE STATE BUDGET EXECUTION

2021

Tirana 2022

C O N T E N T

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Introduction

The Albanian Supreme Audit Institution, as the highest institution of economic and financial control in the country, is subject only to the Constitution and the laws. Through the controlling activity, we audited the economic activity of state institutions and other state legal entities, the use and protection of state funds by central and local government bodies, the economic activity of legal entities, in which the state has more than half of the shares, as well as loans, credits and their obligations which are guaranteed by the state.

Pursuant to constitutional obligations, the Albanian Supreme Audit Institution presents to the Assembly the consolidated report on the audit of the implementation of the 2021 budget, as a synthesis of indicators and activity against predetermined objectives within the framework of public finance management by general government institutions, as well as the opinion on the report of the Council of Ministers on the expenses of the previous financial year before the approval by the Assembly.

In the drafting of the annual report on the implementation of the consolidated budget, we are based on the annual consolidated statements for the financial transactions of the state for 2021, the report on the implementation of the annual budget, the report on the public debt and its composition, the report on the use of the reserve fund and contingency, as well as the report on the situation of internal public financial control in general government units prepared by the Ministry of Finance and Economy at the end of May 2022.

In the function of drafting the Report on the implementation of the 2021 budget, there are also audits of compliance, financial, IT, performance, as well as combined audits, on the totality of revenues, expenses and financing of central and local government and special funds, which are approved by law by the Parliament of Albania or by the decision of the council of the local government unit, including public funds which are collected, kept, distributed and spent by public sector units and that consist of revenues, expenses, loans and grants for public sector units.

The report summarizes the problems, deficiencies and shortcomings found in relation to issues of planning, monitoring and implementation of the budget in the audits of the Ministry of Finance and Economy, the General Directorate of Taxes, the General Directorate of Customs, the special funds (SII and CHCIF), as well as central and dependent institutions and other public entities.

In order to improve public responsibility, transparency and accountability of the government, ALSAI will support public institutions to prevent, but will also continue with the identification of deficiencies, misuses and violations in the regular performance of duties by public officials, accompanying them with relevant recommendations, since in this way it serves the non-repetition and the prevention, which cost much less than the consequences of mismanagement and financial abuses.

The report on the implementation of the 2021 budget continues with an opinion on the budget as a whole, issues of planning and realization of income, expenses, budget deficit, and public debt management, closing with the evaluation of the effectiveness of the internal public financial control system.

Opinion on the 2021 budget report

The Albanian Supreme Audit Institution has audited the compliance of the drafting, approval, execution, reporting and compatibility activities of the State Budget for 2021, as well as the measures taken by the general government institutions.

We have audited whether the processes and transactions within the budget system are in compliance with the defined audit criteria that originate from the mandatory legislation for implementation for the audited institutions and we have drawn up the opinion based on the consolidated report on the implementation of the annual budget 2021, the public debt management report, as well as the annual statements of the use of the reserve and contingency fund.

We conducted the audit in accordance with the International Standards of the Supreme Audit Institutions. According to these standards, our responsibilities are described in the paragraph “Responsibilities of auditors for compliance audit”. Our objective is to, through this opinion, evaluate the level and degree of implementation by the general government units of the management principles of the budget system, such as transparency, predictability, inclusiveness, fiscal discipline in accordance with macroeconomic stability and the sustainable economic and social development, control of budget execution and how the policy objectives of the budget program were implemented for the year we are analyzing.

We believe that the evidence obtained during the completed audits is sufficient and appropriate to support the basis for the opinion.

The audit of ALSAI has identified the procedures that ensure the integrity and accuracy of the information of the annual consolidated statements for the financial transactions of the state.

The legal, sub-legal and regulatory framework in the implementation of the 2021 budget, on which the financial transactions of the general government entities are carried out, and the documentation requested and made available by the audited entities, have served our audits to examine and obtain sufficient evidence to justify and assess whether the consolidated statements have been prepared correctly in terms of quantitative and qualitative material aspects.

Basis for the opinion:

From the professional audits carried out, ALSAI has reached the conclusion that, with the exception of some situations highlighted in the Final Audit Reports, the procedures for the preparation, approval and execution of the State Budget are implemented in accordance with the legal framework and regulatory provisions in force. Respectively, the planning and realization of expenses and transfers, as well as the planning and realization of incomes and other revenues, are in accordance with the amounts and dedications defined in the approved budgets of budget spending units.

ALSAI finds that the State Budget Implementation Report for 2021 shows that: actual budget revenues were in the amount of 510.6 billion ALL, general public expenditures during 2021 were realized for 595.9 billion ALL, public debt reached the level of 73.2% of the GDP, and the fiscal deficit in 2021 reached 4.5% of the GDP, provides reliable information on state revenues, expenditures, investments and financial operations.

Despite the indicators included in the Annual Report prepared by the Government on the Implementation of the State Budget and the Macroeconomic Situation for 2021, based on the findings and results of our audits, we underline that:

- ALSAI assesses that, in general, the state's economic transactions in all material aspects have been carried out in accordance with the law on the Management of the Budget System, the State Budget Law of 2021 and its amendment acts. But, from the performance of the audit procedures, it results that, in some spending units, irregularities and actions not in compliance with the legal provisions in force have been found, or the financial transactions carried out by them are not in compliance with the legal requirements. On the basis of financial audits, the Albanian Supreme Audit Institution draws attention to the procedures carried out in violation of the state budget criteria and the main budget provisions for central and local government finances and special funds during the 2021 budget year. As a result of this situation, from the financial, compliance, IT, performance and combined (including thematic) audits, there are 121 audits performed in 131 subjects. For 104 financial, compliance and combined (financial and compliance) audits, in 80% of them the opinions given are of the modified type (qualified and adverse).
- The implementation of controls and preventive, detection, and corrective measures that would guarantee the fiscal discipline of the public sector is not complete and represents a weakness, especially in local self-government institutions. The processes and supporting activities of the budgeting control system, its review, execution, monitoring and reporting, continue to be not yet sufficiently consolidated, to prevent and minimize violations of fiscal discipline by public entities, especially this one, in the conditions of pressures in deficit and public debt indicators.

For the above, based on the results of audits carried out based on risk assessment, as well as taking into account:

- the level of non-compliance or the violation of fiscal discipline within all public entities audited by ALSAI, for the tax part of the audit coverage of 2021,
- that not all transactions and activities were carried out in accordance with the defined audit criteria that originate from the legislation applicable to the audited entities in the context of the use of budgetary financial resources,
- irregularities and violations estimated to be materially important in the implementation of state budget acts have been identified in the spending units,
- the degree of existing operational and strategic risks, the efficiency of risk minimization measures for extra-budgetary actions as well as those on avoiding waste, irregularities or fraud,
- the fact that the proper and effective operation of the harmonized internal control framework, to prevent and mitigate the main risks of public entities, has not yet been ensured in the budget units,

Also, from the audits that belong to the activity of 2021 (fully or partially) there have been missing revenues and a negative effect on the budget revenues in the total amount of 47,852.5 million ALL, mainly from violations of tax and customs legislation, as well as economic damage and use of public funds without effectiveness, efficiency and economy of expenses in the total amount of 37,046 million ALL.

ALSAI gives a *qualified opinion of compliance*¹, due to the importance and spread of the issues mentioned in this report, where material deviations (quantitative and qualitative) are identified in terms of drafting, execution and reporting not in accordance with law no. 137/2020 "On the 2021 budget" and normative acts for amendments to this law, law no. 9936, dated on 26.06.2008, "On the management of the budget system in the Republic of Albania", amended, law no. 9665, dated on 18.12.2006, "On state borrowing, state debt and state loan guarantees in the Republic of Albania", amended, law no. 10296, dated on 8.7.2010 "On financial management and control", amended, law no. 114/2015, dated 22.10.2015 "On internal audit in the public sector", etc., as well as other bylaws in their implementation.

Responsibilities of the Ministry of Finance and Economy and the managerial structures of the General Government Institutions:

The Ministry of Finance and Economy is the responsible authority for drafting and approving the system of rules, standards and procedures that reasonably guarantee the economic, efficient and effective administration of public financial resources. This structure is in charge of directing the processes of macroeconomic and budgetary assessments and forecasts, as well as directing the procedures for drafting, execution, monitoring and budget reporting; issuing and guaranteeing the implementation of by-laws issued in their implementation; control of the reporting process of fiscal indicators; administration of the treasury system, assessment of fiscal risks and contingent liabilities, follow-up of the stock of arrears; general coordination, harmonization and monitoring of the public internal audit service, in accordance with the requirements of law no. 9936, dated on 26.06.2008, "On the management of the budget system in the Republic of Albania", amended, law no. 9665, dated on 18.12.2006, "On state borrowing, state debt and state loan guarantees in the Republic of Albania", amended, law no. 10296 dated on 08.07.2010 "On financial management and control", amended, law no. 48/2014, dated on 24.04.2014, "On delayed payments in contractual and commercial obligations", law no. 114/2015, dated on 22.10.2015 "On internal audit in the public sector", etc., as well as other bylaws in their implementation.

The management of general government institutions is responsible for: the process of drafting, execution, monitoring and budget reporting for the institutions they manage, in accordance with the requirements of law no. 9936, dated on 26.06.2008, "On the management of the budget system in the Republic of Albania", amended, law no. 137/2020, dated on 16.11.2020 "On the 2021 budget" as amended, etc., as well as other by-laws in their implementation.

Responsibilities of the ALSAI auditors on the Compliance Audit:

The objectives of the audit activity aim to provide reasonable security for the public and state bodies, if the reported consolidated fiscal indicators present material anomalies, as well as to conclude with an audit report that includes an opinion on the compliance of drafting, execution, monitoring and reporting of the State Budget for 2021, according to the provisions in the legal and regulatory framework in force.

¹ Referred to ISSAI 4000 "Compliance Auditing Standards", paragraph 194, of the INTOSAI Framework of Professional Pronouncements (IFPP), with editorial changes of 2019: The auditor modifies his/her opinion (issues a qualified opinion), in cases where discrepancies are assessed as material. Depending on the degree of non-compliance, this may result in a qualified opinion (if the compliance deviations are material but not pervasive).

Pursuant to the International Professional Standards in the field of external public auditing (ISSAI), reasonable assurance is a high level of assurance, but it does not guarantee that the audit performed in accordance with the standards will identify every error or anomaly that may exist. Anomalies may arise from errors or fraud and are considered material, if individually or as a whole they influence the economic decisions of users of the report of consolidated fiscal indicators of the budget.

Executive summary

The Albanian Supreme Audit Institution, in fulfillment of the constitutional obligation to present the Report on the implementation of the state budget, as well as giving an opinion on the report of the Council of Ministers on the expenses of the previous financial year (Article 164/1 of the Constitution); pursuant to law no. 154/2014 "On the organization and functioning of the Albanian Supreme Audit Institution" to give an opinion on the annual report on the implementation of the consolidated budget, which also includes the assessment made during the audit activity on irregularities and financial damages during the administration of public funds (article 10, point 2, as well as article 31, point 1, letters "a" and "b"), as well as referring to law no. 9936, date on 26.6.2008 "On the management of the budget system in the Republic of Albania", amended, after reviewing the annual consolidated indicators for the financial transactions of the state (Article 63), presents to the Assembly the report on the implementation of the budget of the previous fiscal year 2021.

We emphasize that in addition to the audit of the implementation of law no. 137/2020 "On the budget of 2021" and the normative acts for amendments to this law, in reaching the opinion we were also based on the level of implementation of the organic budget law (no. 9936); specific legal and regulatory framework of audited entities for financial issues; as well as Law no. 10296, dated on 07.08.2010 "On financial management and control" as amended.

The opinion and conclusions reached in the implementation of the actual 2021 budget are based on the audits carried out in the Ministry of Finance and Economy, in the General Directorate of Taxes, in the General Directorate of Customs, in the Social Insurance Institute, in the Mandatory Health Care Insurance Fund, in ministries and other central institutions, local self-government units, public companies and other state entities, which have included activity that coincides with the budget year 2021 and which belongs to a total of 121 audits, which include 131 subjects in 2021 and January - September 2022.

For the preparation of the 2021 Actual Budget Report, we were based on the results of 121 audits, of which 26 financial audits, 47 compliance audits, 41 combined: financial and compliance audits, 5 IT audits and 2 performance audits.

From the data of the Report "On the implementation of the annual budget, the macroeconomic and fiscal situation during the year 2021" prepared by the MFE and from the data of the above audits, it results that the total revenues of the consolidated budget for 2021 were realized in the amount of 510,572 million ALL, from 507,727 million ALL of the planned annual budget revised by Normative Act (NA) No. 34, dated on 03.12.2021, exceeding the planning by 2,845 million ALL, i.e. realized to the extent of 100.6%, and compared to the previous year, 84,667 million ALL more.

The revenues realized in the 2021 budget constitute 28.8% of the GDP².

The expenses were carried out in the total value of 595,968 million ALL from the 628,269 million ALL of the revised budget in December 2021 with Normative Act No. 34, or realized to the extent of 94.9%, with a non-realization of 32,301 million ALL, as well as compared to the

² GDP calculated according to the assessment of the IMF - World Economic Outlook (WEO) in the amount of 1,769,258 million ALL.

previous year, 11.1% more expenses were carried out in the amount of 59,461 million ALL, despite the non-realization of the planned expenses of the 2021 budget year.

The budget expenditures made in 2021 constitute 33.6% of the GDP.

According to the budget law for the year 2021, the budget deficit was initially 108,695 million ALL and with the Normative Act no. 26, dated on 22.06.2021, it was changed to an increase in the total value of 120,542 million ALL, but still lower compared to the planning of the year 2020, which was 132,965 million ALL. According to the consolidated fiscal indicators of the MFE and the audit in this institution, the budget deficit for 2021 has resulted in 85,397 million ALL, that is, 71% of the total of the amended plan has been used, at a time when 95% of the revised planned expenses have been realized, which are significantly better than in 2020, as a result of the increase in the level of accumulated income. In 2021, the financing of the budget deficit has decreased in the amount of 25,205 million ALL compared to 2020.

Table no. 1 Change of the plan and realization of income, expenses and deficit in 2021

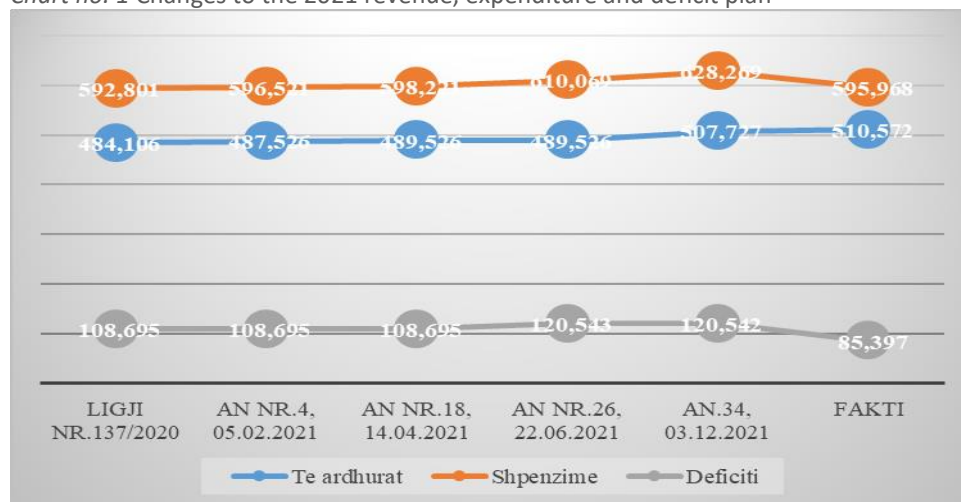
In million ALL

| Naming | Year 2020 | | Year 2021 | | | | | |
|--------------|-----------|----------|------------------|-------------------|--------------------|--------------------|-------------------|----------|
| | The plan | The fact | Law no. 137/2020 | NA no.4, 05.02.21 | NA no.18, 14.04.21 | NA no.26, 22.06.21 | NA n.34, 03.12.21 | The fact |
| The revenue | 446,570 | 425,905 | 484,106 | 487,526 | 489,526 | 489,526 | 507,727 | 510,572 |
| The expenses | 579,535 | 536,507 | 592,801 | 596,521 | 598,221 | 610,069 | 628,269 | 595,968 |
| The deficit | 132,965 | 110,602 | 108,695 | 108,695 | 108,695 | 120,543 | 120,542 | 85,397 |

Source: Data of MFE processed by ALSAI

It should be noted that the 2021 budget is characterized by numerous changes during the year, which begin in February, 2 months after the entry into force of the law, and close less than a month before the end of the budget year. Apart from all the changes with normative acts until the month of July, procedurally they had to be subject to the documentation and deadlines as in the annual draft budget. The high number of changes shows that the initial budget may not have been realistic, shaking the credibility of the planning process, as a result of the lack of institutional capacities, part of the chain of the budget planning.

Chart no. 1 Changes to the 2021 revenue, expenditure and deficit plan



Source: Data of MFE processed by ALSAI

From the analysis of the structural composition of the total budget revenues, it is established that they consist of grants, tax revenues and non-tax revenues. The income from the grants was

realized in the amount of 12,671 million ALL or 65.5%, creating a non-realization of 6,682 million ALL, despite the reduction planning during the year and the negligible weight in the total income of 2.5%. This non-realization was covered by the excess of two other items: tax revenues were realized in the amount of 475,612 million ALL or 101.9% (which account for the main weight of 93%) and non-tax revenues in the amount of 22,289 million ALL.

Considering the macroeconomic fiscal framework and its indicators of special importance in determining the strategic priorities of the government and the goals and objectives in relation to the main indicators of the fiscal policy, it turns out that there is still a lack of accuracy in the forecasting of the analytical indicators of income in the medium and annual period.

From the analysis of the monthly progress of revenue collection during the year 2021, it results that the month of February has the lowest level of total accumulated and tax revenues and the month of December has the highest level, with an increase of 40-50%, which shows the non-systematic work of the institutions charged with revenue collection.

An integral part of tax revenues are revenues from taxes and customs, revenues from local government and revenues from special funds, which in the final budget plan were in the amount of 466,773 million ALL, and 475,612 million ALL or 102% were realized, exceeding the plan by 8,839 million ALL.

Table no. 2 The realization of tax revenues

In million ALL

| Naming | 2020 The fact | 2021 | | | |
|----------------------------------|------------------|----------------|----------------|------------|----------------|
| | | The plan | The fact | % | The difference |
| Total tax revenues | 398,658 | 466,773 | 475,612 | 102 | 8,839 |
| <i>Tax and customs revenues</i> | <i>278,984</i> | <i>332,792</i> | <i>338,074</i> | <i>102</i> | <i>5,282</i> |
| <i>Local government revenues</i> | <i>21,975</i> | <i>25,926</i> | <i>26,666</i> | <i>103</i> | <i>740</i> |
| <i>Special funds revenues</i> | <i>97,699</i> | <i>108,055</i> | <i>110,872</i> | <i>103</i> | <i>2,817</i> |

Source: Data of MFE processed by ALSAI

From the data, three component group-items of tax revenues have exceeded the planned revenues, significantly more than their realization in 2020.

Although the total revenues from taxes and customs have been exceeded, according to the items and sub-items of taxes, it results that: VAT within the country for 11,075 million ALL, personal income tax for 1,888 million ALL and mining rent for 1,455 million ALL, have not been realized.

Regarding income from taxes and customs, income from VAT, although 100.9% were realized in total, the GDT did not realize the revised planned revenue of net VAT for the amount of 10,959 million ALL, due not only to the non-collection of income from VAT and the creation of new obligations, but also by exceeding the reimbursement plan by 42%, adding to the fact that with the increasing changes in the value of the collected VAT, the MFE has kept the level of reimbursement unchanged, influencing the deepening of non-realization.

Compared to 2020, net VAT has a negligible increase, at a time when gross VAT has a significant revenue increase of 18%, due to the significant excess of VAT refunds.

Although the GDT has reported to the MFE the stock of VAT refunds in the amount of 476,650 thousand ALL, the audit has shown that, at the end of the 2021 exercise period, there are 69 requests for VAT refunds received, but not approved, in the total amount of 1,893,609 thousand

ALL, for which the maximum period of 60 days has passed from the date of their submission and they have not been reimbursed. So, in the assessment of ALSAI, the refund stock on 31.12.2021 is 2,370,259 thousand ALL, or 1,893,609 thousand ALL more than the reporting of the GDT.

According to the MFE report, the personal income tax was realized in the amount of 39,312 million ALL, or with a non-realization of 1,888 million ALL, although they collected 6% more than a year ago.

From the audit at the GDT, it appears that the national and road traffic taxes have a non-realization of 818 million ALL.

Mining rent in the final plan was 3,900 million ALL and 2,445 million ALL were collected, with a realization of 62.7%, creating a deficit in the income from this item of 1,455 million ALL.

From the audit at the GDT, it has been established that in the composition of the actual income of the exercise year, structured according to the nature and type of income, there is also the income accounted for, in account 466 "Assets in custody" which represents unidentified collections (advance payments) with an obligation in the C@TS system, until their systematization, in the amount of 27,217 million ALL, an amount which affects the real reporting of the collected annual income, as a result of prepayments by the taxpayer.

The realization of customs revenues compared to the 2021 plan, in gross terms results in the amount of 106.7%, or 12,115 million ALL more than the plan, and in net terms results in the amount of 106.5%, or 11,790 million ALL more than the plan. From the analysis of 60 groups of main items, which make up 89% of the total customs revenue, it is evident that the increase in revenue is the result of the increase in the volume of imports to the extent of 75%, and the change of revenue per unit to the extent of 25%.

For the revenues from the local government, which in total were planned to be 25,926 million ALL and 26,666 million ALL were realized, i.e. to the extent of 103%, the revenues from local taxes for the value of 112 million ALL were not realized, but they were covered by the excess of property tax revenue and small business tax arrears.

From the audits carried out by ALSAI in 51 units of local self-government, for the activity of the budget year 2021, violations were found with a negative effect on the revenues of the municipal budget in the amount of 770.8 million ALL, of which: the value of 183.9 million ALL from non enforcement of the law on local taxes and fees, 37.3 million ALL from the mismanagement of state property, 259.9 million ALL from non-collection of fines and 289.7 million ALL from violation of tax legislation. Also, it has been established that no measures have been taken to collect the infrastructure impact tax, creating missing income in the Municipality of Kukës, Lushnjë, Kavajë, etc.

The stock of tax debt for the 36 audited municipalities, for the fiscal year 2021, is in the amount of 10,478.9 million ALL, with an annual increase of 1,674.4 million ALL.

The lack of the construction of a computerized and quality tax system, in order to ensure the correct recording and administration of income, to increase the level of local government income collection, remains a problem in some municipalities.

Regarding the income from special funds, although in total they were realized to the extent of 103%, it was determined that the income from the health insurance contribution was not

realized in the amount of 543 million ALL and the compensation fund of the owners for 269 million ALL, while they exceeded income from social security in the amount of 3,629 million ALL.

From the examination of the report of the MFE draft budget for 2021, it results that the effect of the increase in the minimum wage was predicted at 3 billion ALL³, which shows that about 83% of the increase in contribution income came as a result of this action.

From the audit carried out in the SII, it has been found that in 2021 the number of total contributors to the mandatory social insurance scheme has increased by 42,960 people, of which about 26% belong to the state sector (budgetary and non-budgetary) contributions that are paid in the largest part from the state budget, the number of contributors in private entities has decreased by 31,085 people and the self-employed have increased significantly.

The fact that with Normative Act no. 34, dated 03.12.2021, health insurance contributions are planned to increase by 1,000 million lek compared to the budget law and have not been realized, as well as the fact that social insurance contributions have been exceeded, show that there was a lack of precision in budget planning for health insurance contributions.

From the audits carried out in the GDT and GDC, it has been found that the arrears of tax, customs and social and health insurance of the taxpayers at the end of 2021 are in the total value of 180,646 million ALL, with a net annual increase of 13,124 million ALL (additions - reductions), or 7.3% of the total unpaid progressive obligations.

The data show that the stock of unpaid tax liabilities increases at a higher rate than it decreases (collects), as well as the highest number and value of unpaid liabilities belong to passive subjects and 80% of the debt belongs to periods over 2 years, significantly increasing the difficulty in collecting these obligations.

It should be noted that the same situation is found in social and health insurance obligations, where the level of debt at the end of 2021 was 17,743.3 million ALL, as well as customs debts in the amount of 1,264.8 million ALL with an increasing trend in the number of debtors and the level of debt compared to 2020.

The collection of budget revenues to the extent of 94% is under the responsibility of the activities of the General Directorate of Taxes and the General Directorate of Customs with their directorates and regional branches.

From the audit carried out in the *General Directorate of Taxes*, 678 controls have been suspended, unfinished, or not started, as well as carried over from 2015 onwards, which results not only in a low performance of the controlling activity, in this way losing the effect of the examination and analysis of tax-paying subjects, but also with an impact on the level of tax revenue collection.

The possibilities of tax revenue collection are even greater, if we take into consideration that the number of controls by the RDT for 2021 compared to the previous year was carried out at 81%, while the level of detections is at 45%, which shows an ineffective work in the fight against fiscal evasion.

From the audit at the *General Directorate of Customs*, it was found that the final plan of customs revenues reported by GDC is not the same as the plan of customs revenues according to the table of consolidated indicators of the state budget, referred to Normative Act no. 34,

³ Report on the draft law "On the 2021 budget", page 12

date on 03.12.2021, therefore the analyzes on the realization of customs revenues by the institution itself have not been carried out referring to the MFE plan.

Also, no additional control activities have been undertaken to minimize the risks that have had a negative impact on the recovery of the customs debt, but generally it has only been sufficient to record the customs debt reported by the customs branches, and there is as well the lack of human resources in following the procedures.

According to the fiscal indicators of the 2021 consolidated budget, the **total expenses** were realized in the amount of 595,968 million ALL or 94.9% with a non-realization of 32,301 million ALL. Budgetary expenses mostly consist of current expenses 461,075 million ALL (77.3%), capital expenses 98,203 million ALL (16.5%), reconstruction fund 29,521 million ALL (4.5%) etc.

Compared to the previous year, 59,461 million ALL more or 11.1% were spent, mainly in current expenses 39,708 million ALL, capital expenses with 12,894 million ALL, in funds for reconstruction 12,930 million ALL, etc.

It should be noted that each of the main component items of the total expenses in the consolidated indicators has not been realized compared to the final budget planning with Normative Act no. 34, dated on 03.12.2021. Thus, current expenses have the highest non-realization of 11,792 million ALL, although the salary fund has been exceeded in personnel expenses in the amount of 1,247 million ALL, operational maintenance expenses in the amount of ALL 3,570 million, expenses for special funds for social and health insurance in the amount of 4,259 million ALL, other social expenses in unemployment payment and birth bonus with 1,255 million ALL, etc.

During the execution of expenditures in 2021, from the audits carried out in the MFE and other units of the general government and public companies, problems and deficiencies have resulted in the phase of registration, monitoring and realization of expenditures, in addition to the economic damage caused and ineffective use of public funds.

From the audit at the MFE, it was found that the budget plan approved by Normative Act no. 34, 03.12.2021 compared to that laid down in FISG according to fiscal indicators, there are differences in almost all expenditure items, with a net value of 13,999 million ALL; there is a high number of reallocations of 2 560 budget IDs; numerous revisions of budget funds carried out throughout the year, resulting in about 2,517 revised projects, with a net change in available funds of 65,100 million ALL, as well as 348 registrations of reallocations with earlier effective accounting dates (retrospective).

Also, 16 investment projects with a value of 406 million ALL have been identified, which in the 2021 budget law have the description "*Frozen Fund*".

Arrears in the amount of 10,065 million ALL have been paid, which represent about 14% of Capital Investments with Internal Financing realized for the year 2021, not presenting the indicators of the realization of public investments correctly, as invoices dating from 2009 are also included.

Payment plans have been registered in FISG in year 3 for 15 projects, in the amount of 1,900 million ALL, without payment plans for the current year, year 1 and year 2. This year's registration of these investment projects was carried out under conditions of lack of budget funds approved for commitments undertaken in the current year or previous budget years, as it is not possible for the commitments undertaken with relevant contracts, not to be expected to

be executed during the next 2 budget years.

Capital investments with internal financing in the amount of 1,148 million ALL were realized, registered in FISG, which do not have an approved budget plan, while in the Table of Consolidated Fiscal Indicators they are reported to have been realized according to the budget plan.

Contracts were signed after October 15 for public investments, a total of 1033 contracts, with a total contracted value of 40,311 million ALL, while the commitment for 2021 results in 4,295 million ALL.

In relation to public investments, other problems arise in the registration and monitoring of projects, such as:

- Revisions have been carried out in almost all investment projects with internal financing, which result in the reduction of the budget of newly concluded contracts, in ongoing investment projects, as a result of the allocation of the budget to infrastructure projects in the amount of 20%, without first going to MTBP 2021-2023.
- During 2021, investment projects have been presented and approved in a fragmented manner, creating a very large number of projects, which makes their monitoring difficult.
- Numerous reallocations, which serve to create budget space for the start of new projects, mainly for the road transport program and water supply and sewerage;
- As a result of the allocation of funds from the existing ones for new projects, conditions are created for the emergence of arrears in these investments, forcing the government to undertake budget adjustments through normative acts.

The above-mentioned problems point to major deficiencies in the planning of public investments by central and local institutions, with the effect of pressure on the increase of public debt, as a result of non-compliance with the limits approved for expenditures in the current budget year and the limits approved for future budget years.

From the audit of 8 projects with foreign financing, deficiencies and violations were found, resulting in economic damage in expenses in the amount of 8 million ALL for the liquidation of unfinished works, as well as use without economy, effectiveness and efficiency of public funds in the amount of 551 million ALL, as a result of deficiencies in the implementation of the works, specifically the postponement of the deadlines for the implementation of the contract, as well as unfavorable technical solutions.

Referring to the macroeconomic fiscal framework, **Concessionary contracts/PPP with budgetary support** are included in the fiscal risks with budgetary impact.

- For the year 2021, out of 13 concession contracts/PPP with budget support, payments have been made for 12 of them in the total amount of 11,517.7 million ALL with a realization of expenses at the level of 97.4% against the plan. The government has respected the payment limit of up to 5% of the actual tax revenue of 2020, since according to the calculations, it is 2.89%. From the audit in the MFE of payments for concession contracts/PPP, it was found that payments were made for the past years in the amount of 292.6 million ALL or 2.5% of the total expenses for them, which constitute an increased risk for the creation of arrears, as well as in one case, the contractual obligations are not budgeted, nor registered as an obligation in the

FISG, (school construction project in the Municipality of Tirana), an action contrary to the provisions in the standard instruction for the implementation of the budget.

From the audit of the Compulsory Health Care Insurance Fund (FSDKSH) related to concession contracts "For the provision of hemodialysis", invoices for incomplete services for 6,248 sessions were found, which belong to the value of 69.9 million ALL, bringing as a consequence a financial effect for the invoicing of services not performed. This comes as a result of deficiencies in the design of the projections, which are not in accordance with the real needs according to the centers for the performance of this service.

For the concession/PPP "Providing a personalized set of surgical instruments" it was found that the service was received within the budgeted value, but the number of instruments changed in an unsubstantiated way for some of the sets from year to year; there is no exact protocol according to interventions/sets; there is a much larger number of diagnoses/interventions compared to the number of used sets; for the same interventions/sets, three levels of complexity have been applied, etc., resulting in difficulties in monitoring, as well as difficulties in respecting the budget ceiling, with an impact on budget imbalances and restrictions on interventions for patients.

- Regarding the concession of the laboratories, the implementation of the concession contract has started throughout the year 2021 in the university and regional hospitals, as well as the two municipal hospitals which are determined according to the concession contract/PPP.

The initial value of the planned expenditures for the PPP of the laboratories was in the amount of 1,280.4 million ALL, and with the subsequent changes, the final plan for 2021 was determined to be 1,137.8 million ALL, i.e. decreasing by 142.6 million ALL. According to the data from the CHCIF, it results that the expenses incurred are 1,106 million ALL, and there are no arrears.

According to the data made available by the CHCIF for the financing of the Basic Population Control concession contract (check up), it is established that the provision of this service has resumed following the order of the MHSP on 01.09.2021, presenting over the realization compared to the projection for the following period of the year, but with some changes made in this contract, has contributed to the reduction of the cost of this service, since these cases are deducted from the monthly service bill.

- Mutual obligations between *energy sector companies* are an important element of fiscal risks, which at the end of 2021 result in the value of ALL 144.21 billion. Of this value, 36.88 billion ALL are liabilities of companies in this sector to MFE and 6.7 billion ALL are liabilities of EPDO to GDT. The mutual obligations between EPDO and TSO range from 13.9-17.8 billion ALL. The high level of mutual obligations between energy sector companies and the lack of this coordination constitute an increased risk for the state budget.

- *The accumulated liabilities of the water supply and sewerage enterprises* until December 2021 turn out to be in the amount of 21.9 billion ALL, where only the UK SHA Durrës enterprise has 6.71 billion ALL of these liabilities. The financial difficulties of these enterprises constitute an increased risk due to the need for budgetary support, in order to curb and pay off arrears.

- *For the general government units*, arrears until the end of 2021 are recorded in the amount of 13.33 billion ALL, with a decrease compared to 2020 in the amount of about 1 billion ALL. It

should be noted that this reporting is not presented correctly and completely by the MFE, since the audit of payments for arrears according to the data in FISG results in 1.2 billion ALL less than the reported payments, a value that belongs to 359 budgetary institutions.

- The MFE does not include in the reporting of arrears the obligations of the Albanian state from the decisions of the Courts of Arbitration and the Court of Human Rights. According to the MFE mid-2021 report *"On the implementation of the 2021 budget", "Assessment of the macroeconomic fiscal and budgetary situation for the 5th month of 2021 and the expectations for the 12th month"*, the total accumulated liability for International Arbitrations for the period January-June 2021 is presented in the amount of 155,712,905 Euros. The above data, as well as those updated at the end of 2021, related to the obligations of International Arbitration decisions, were not presented in the Report of the Council of Ministers, prepared by MFE, *"On the implementation of the annual budget, the macroeconomic and fiscal situation during the year 2021"*.

The reconstruction fund for coping with the consequences of the 2019 earthquake, in the budget law, is planned in the amount of 28,000 million ALL, while with the Normative Act no. 34, dated on 03.12.2021, this fund has been increased with the value of 7,000 million ALL, reaching in the amount of 35,000 million ALL. It turns out that the reconstruction fund was realized in the amount of 29,521 million ALL, or in the amount of 84.4%, of which, the expenses for the central government constitute 39% of the realization, while the expenses of the local government constitute 61%.

The provision in Article 7 of Law No. 137/2020 "On the 2021 Budget" of reconstruction funds for local government units, adding the limits of unconditional transfer, is not in accordance with the provisions of the Law "On Local Self-Government Finances", as among others, the transfers are unconditional, while these are conditional on the allocation of funds for the reconstruction of buildings that have suffered damage from the earthquake, violating the formula of their distribution.

From the audit in the MFE, it has been established that the value of the funds of 30,573 million ALL, distributed with DCM until the end of 2021, is above the value determined in the budget law of 2020 and 2021 taken together for the anticipated funds of reconstruction, since the planned funds are in the amount of 67,000 million ALL, while a total of 97,573 million ALL have been distributed with DCM.

Also, it turns out that some DCM's have determined as a source of financing the freezing of funds from slow-moving reconstruction projects, in the amount of 4,468 million ALL. The use of the freezing of funds for this purpose is not based on legal criteria, since the organic budget law and the annual budget law do not foresee freezing as a way to reallocate funds.

For 2021, operating expenses for housing families whose houses were damaged by the earthquake, result in the amount of 2,985 million ALL, or 61 million ALL more than in 2020, increasing further the total cost of the reconstruction process.

The reserve fund in law no. 137/2020 "On the budget of 2021" was foreseen at 4,000 million ALL, and with four Normative Acts it was changed to the final value of 9,000 million ALL, respecting the relevant legal limit up to 3% of the total value of the approved funds. With the use of 1,000 million ALL to cover the cost of the elections for the Assembly, the rest of 8,000

million ALL was used in the amount of 7,745.3 million ALL or 96.8% through 30 DCM's, of which 54.7% from MHSP, 19.2% from MFE etc. The destination of the use of the reserve fund was 87.4% current expenses (operating expenses and internal transfers) and only 9.2% for investments.

From the audit at the MFE, it has been established that the allocation and use of the reserve fund to finance unplanned operating and investment expenses, as well as arrears of budgetary institutions has deviated from the general principle of the purpose of these funds for the amortization of unexpected events such as natural disasters, etc., resulting in a distortion of the use of the reserve fund.

The budget deficit in Law No. 137/2020 "On the 2021 budget" was planned at 108,695 million ALL and was amended by Normative Act No. 26, dated on 22.06.2021, with an increase of 11,848 million ALL and the final annual plan of 120,543 million ALL, which amounts to 6.8% of the GDP.

Law no. 137/2020, "On the 2021 budget" approved on 16.11.2020, for the general deficit did not respect the limit of the general budget deficit up to 2% of GDP defined in law no. 9936, dated on 26.06.2008 "On the management of the budget system in the Republic of Albania", amended, article 4/1, point 1.d, but he has predicted it over 3 times higher. This is because the law no. 86/2021, for the approval of Normative Act no. 25, dated on 22.06.2021 "On some amendments to law no. 9936", dated on 26.6.2008, "On the management of the budget system in the Republic of Albania", as amended, was approved on 01.07.2021, i.e. more than 7 months after the approval of the initial budget law.

The budget deficit at the end of 2021 resulted in 85,397 million ALL, which represents 4.5% of GDP. Despite the fact that the budget deficit execution ceilings were respected during the year, it should be noted that it reached its level of 61.5% in December, because 44% of capital expenditures with internal financing were carried out in this month, compromising the efficient, effective and economic use of public funds, by concentrating their use at the end of the year.

In the actual budget report for 2021 drawn up by MFE, it was reported that the **stock of public debt** to GDP is at the level of 73.2% in 2021 from 74.5% in 2020. From the analysis, it results that the decrease of the public debt indicator in ratio to the GDP has mainly come from two factors such as: the decrease of local government debt and the rate of GDP growth being greater than the growth of the public debt stock. Thus, the annual rate of GDP growth is greater than the debt, but the debt itself results in an increase in value of 158,506 million ALL or about 13% more than in 2020.

During 2021, no 6-month treasury bonds were issued to cover losses from the exchange rate in the amount of 6.9 billion ALL, with the effect of underestimating the real debt stock reported at the end of 2021.

Also, it has been established that principal and interest payments for non-performing guarantees are made by the State Budget, without taking all the necessary measures by the lending institution for the recovery of the obligation, but only based on the self-declaration of the beneficiary of the guarantee on his inability to pay.

From the audit at the MFE, it was established that new liabilities in the amount of 6,511 million

ALL of sub-borrowing entities were created within the framework of sub-loan agreements throughout the year 2021, as a result of the non-repayment of the relevant obligations.

State guarantees present an increased risk in terms of their administration, where almost all the decrease in the stock of foreign guarantees is attributed to payments made by the State Budget. During the year 2021, new liabilities were created in the amount of 1,529 million ALL in the framework of the failure of payments for the loans guaranteed by the beneficiary of the guarantee, without including the effect of the guarantees given within the project with identification number in the loan register "88" in the value of 403.9 million ALL, resulting in the annual increase being estimated at 1,932.9 million ALL.

It follows from the above that, despite the realization of the budget indicators of 2021 and the improvements compared to the previous year, the annual budgeting process continues to lack harmonization in terms of medium-term and annual planning; weaknesses in the performance of budget implementation have appeared in some public institutions. ALSAI, during the audit activity, has identified problems and deficiencies in the implementation of the 2021 budget by central government institutions, local self-government units and other public entities, both in the field of income and expenditure, resulting in economic damage and negative effects on the state budget.

Referring to the results of the 121 performed and evaded audits, belonging to the budget year 2021, missing income and total economic damage to the state budget was found to be 46,604 million ALL.

In the area of income, a damage of 46,327 million ALL has been caused to the state budget, which represents violations in the implementation of the tax legislation to the extent of 98% and the rest from the violations in the implementation of the customs code, from the violations in the implementation of the legislation for local taxes and fees, etc.

In the General Directorate of Taxation and the General Directorate of Customs, and in some of the regional directorates and customs branches, deficiencies and defects have been found, which have resulted in missing revenues in the state budget, as a consequence not only of the low number and quality of tax controls, but also of the customs assessment, which highlights the weakness of the institutional capacities charged for this purpose.

The economic damage to the state budget in the area of expenses has resulted in 277 million ALL, mainly in the area of investments 92%, but also in operating expenses, in projects with foreign financing, etc.

The audits resulted in negative effects on the state budget in the amount of 38,295 million ALL, of which 1,525 million ALL in budget revenues (mainly in the implementation of the customs code and in local taxes and fees) and 36,769 million ALL in budget expenses (mostly in the item: other expenses for court decisions for illegal dismissals, as well as in the implementation of investments)

In addition to the above, ALSAI, in 2021 and before, through information technology audits, has addressed the issues of informatization not simply and only in the context of the lack of strategy and regulatory acts for the established systems, but has constantly emphasized the inadequacy in guaranteeing data security, as well as continuity in the provision of services through

Information Technology, as in NISA, PPA, SCA, NFA, IFSV, etc., in order to take measures in these directions.

The issues of **financial management and internal control** are considered important by ALSAI, defining special directions of audits, as they enable efficient and effective management of public services, through a system of policies, procedures, activities and controls for planning, management and control of financial resources.

Based on the Report "On the functioning of the internal public financial control system in the general government units for the year 2021"⁴, as well as on the audits carried out by the ALSAI, we come to the conclusion that there continues to be a lack of appropriate commitment for the necessary and indispensable improvement in this direction, despite the fact that the implementation of an effective financial management and control system is a legal obligation of general government units, commercial companies, as well as any unit that spends public funds.

From the five components of financial management and control, it is found that with the exception of the control environment and information and communication, which are evaluated with average results, risk management, control and monitoring activities continue to suffer from numerous problems and have no tendency to improve.

The activity of internal audit in the public sector is considered to have a moderate progress but continues to be far from expectations and with essential technical and professional challenges. The fact that for 2021 there are 42 public entities (19 independent institutions, 13 agencies and 10 municipalities) that are not covered by internal audit in any of the forms defined in the legal, sub-legal and regulatory framework, which constitute ¼ of all institutions for auditing, it shows that there is a lack of supervision of the control systems, and consequently there is no assurance that the financial management of public funds is carried out in accordance with the legal and regulatory framework and that their use is done effectively, efficiently and economically.

In addition, the internal audit structures result in a shortage of 52 auditor positions or 25%, following the same problems as in previous years. From the external quality assessments carried out by the General Directorate of Harmonization of Internal Public Financial Control, it results that they show weaknesses in the creation of internal audit structures, in the recruitment of auditors, the implementation of internal audit standards, etc., mainly at the local level and in hospital centers.

Irregularities evidenced in the implementation of law no. 9936, dated on 26.6.2008 "On the management of the budget system in the Republic of Albania", as amended, economic damages and the lack of effective, efficient and economic use of public funds resulting from audits, accompanied by marked deficiencies in the functioning of the internal public financial control system in the general government units, show that much remains to be done in terms of the good management of public finances.

It should be emphasized that, for each audit, as the case may be, the ALSAI has identified the

⁴ Report "On the functioning of the internal public financial control system in the general government units for the year 2021" prepared by the General Directorate of Harmonization of Internal Public Financial Control, in the Ministry of Finance and Economy, May 2022

responsibilities for the non-implementation of the budget legislation as a whole, as well as requested the punishment of the responsible officials according to the level of involvement in the resulting irregularities and deficiencies, with the aim of increasing accountability, transparency, efficiency and fiscal discipline in the planning and spending of public funds.

The Albanian Supreme Audit Institution, in fulfillment of its constitutional obligation and mission, based on the results of the audits for the implementation of the 2021 state budget, through the recommendations made, has considered key issues that require increased attention from the Government in the future:

- Continuous improvement of the mid-term and annual budget planning process to harmonize them, as well as to ensure accuracy and quality in the implementation of strategic priorities, guaranteeing that changes to the annual budget are subject to documentation and deadlines as defined in the law that manages this system, with the aim of a realistic, well-balanced and stable annual budget with a reduced public debt ratio;
- Increase in budget revenues by reducing informality and expanding the base of taxpayers; collection of tax and customs arrears, institutionally strengthening the fiscal administration, resulting in stable economic development and reduction of public debt;
- The continuous good management of public investment projects, with the aim of increasing the effectiveness, efficiency and economy in the use of public funds, in order to reduce the cost and increase the quality of service to taxpayers and citizens;
- Ensuring the necessary and indispensable engagement in the operation and improvement of the implementation of an effective system of financial management and internal control, on the part of the general government units, commercial companies as well as any unit that spends public funds.

I. BUDGET PLANNING AND EXECUTION

1. REVENUE PLANNING, EXECUTION AND AUDIT

Law no.137/2020, approved on 16.11.2020, "On a budget of 2021," has planned a total revenue of 484,106 million ALL, changed throughout the year with the Normative Acts as follows:

- NA no.4, dated 05.02.2021, planned a total revenue of 487,526 million ALL, with an increase of 3,420 million ALL or 0.7% compared to the initial budget;
- NA no.18, dated 14.04.2021, planned a total revenue of 489,526 million ALL, with another increase of 2,000 million ALL or 1.1% compared to the initial budget;
- NA no.34, dated 03.12.2021, planned a total revenue of 507,727 million ALL, predicting a total annual increase of 23,621 million ALL or 4.9% compared to the initial budget.

The Ministry of Finance and Economy (MFE) audit found deviations of law no.137/2020 from the revised Medium Term Budget Program (MTBP) document and the macro framework, representing more optimistic predictions than those approved by the annual budget law.

Table no.3 Budget revenue planning 2021

Million ALL

| | Item | Budget Implementation 2020 | Macro Framework/ MTBP St. I+II | Revised Macro Framework | Draft Budget | Budget Law |
|------|-------------------------------------|----------------------------|--------------------------------|-------------------------|--------------|------------|
| A | Total Revenue | 425,905 | 520,378 | 505,379 | 478,965 | 484,106 |
| I. | Grants | 8,295 | 16,000 | 17,353 | 20,353 | 20,353 |
| II. | Tax Revenue | 398,658 | 480,528 | 466,426 | 437,012 | 442,153 |
| 1 | <i>From tax offices and customs</i> | 278,984 | 343,259 | 335,000 | 311,031 | 316,172 |
| 2 | <i>Revenues from local gov.</i> | 21,975 | 27,426 | 25,426 | 25,426 | 25,426 |
| 3 | <i>Special funds</i> | 97,699 | 109,843 | 106,000 | 100,555 | 100,555 |
| III. | Nontax Revenue | 18,953 | 23,850 | 21,600 | 21,600 | 21,600 |

Source: MFE data processed by ALSAI

The audit at the MFE found that two new programs, "Support for communication networks" at the Ministry of Infrastructure and Energy with a value of 20 million ALL and "Support for the technology of the Justice System" at the High Judicial Council with an approved budget of 8.5 million ALL, not included on the MTBP 2021-2023, were added to the draft budget for 2021.

At the 'Implementation of the 2021 budget' instruction procedure, MFE did not respect the deadlines defined by Law no.9936, dated 26.06.2008, "On the management of the budget system in the Republic of Albania," as amended, since this instruction was sent to the institutions at the end of January 2021, when it should have been approved no later than ten days after the coming into force of the annual budget law no.137/2020, approved on 16.11.2020.

Deficiencies in the budget planning process have also been found in the audit of central institutions, such as the Ministry of Defense, as a spending unit that has not prepared and submitted the requirements for the medium-term budget program for the budget program administered by the Ministry itself MTBP 2020-2021, 2021-2023, (first stage); has not implemented the stages of the MTBP through the AFMIS system; the accompanying relation of the budget requests does not provide detailed and sufficient information to support the requests for specific programs; on budget planning, there is an inconsistency between the calculated values for the financing of projects by year, if we refer to the submitted plan for the

years 2021-2023 and the implementation until 2020, etc.

These deficiencies in the planning process, which serve as a base for detailing the investment funds approved with the 2021 budget law, turn into the main causes of the creation of arrears or even the implementation beyond the deadlines of the new projects and the ongoing projects, as a result of the lack of funds in accordance with the progress of the works.

Such deficiencies have also been found during the audits at AKBN, DPSHTRR, DSHQ, and FSHZH, where it turns out that there is a lack of well-structured budget needs planning from each department, as well as fund reviews at the end of December, the budget year closing period, without a prior analysis detailed and argumentative of the situation or with the reasons for this decision, again testifying to a weak planning and monitoring process of budget funds.

Besides these, as regards the drafting of normative acts on budget changes, it has been found that a detailed analysis with the supporting documentation for the increased budget revenue, to optimize implementation for the rest of the year from MFE has not been done.

According to the MFE report, the 2021 budget law⁵ was changed six times throughout the year, starting with NA no.4 dated 05.02.2021, NA no.8, dated 22.03.2021, NA nr.18, dated 12.04.2021, NA no.26, dated 22.06.2021, NA no.31, dated 27.10.2021 and NA no.34, dated 03.12.2021.

Although the government's right to a budget change over the year is defined in the Constitution (Article 160), law no.9936, dated 26.06.2008, "On the management of the budget system in the Republic of Albania," as amended, on the two last sections of Article 46 for budget review, it is determined that "If the Council of Ministers decides to change the annual budget law, the approval procedure of the changes must be the same as the one defined in Article 29 of the law, followed on the state draft budget approval. If the changes are not approved within the month of July, then the proposal for amending the annual budget law must be voted on with an accelerated procedure."

Based on the above, the conclusion reached is that all the amended changes to the normative acts until the month of July had to follow the deadlines and documentation as followed on the annual draft budget. Besides this, the various and frequent changes to the budget law point out that a well-balanced and stable annual budget with reduced debt has yet to be achieved, and this is also due to deficiencies in the control field, financial management, and fiscal discipline.

Furthermore, budgets are generally considered reliable when governments implement their revenue and expenditure plans as budgeted. Despite the need for budgetary changes, budget deviations may reflect an unhealthy displacement of the expenditures from those planned at the beginning of the budget process, highlighting a lack of capacity, weak revenue predictions, or other factors.

Finally, the changes in budget revenues with normative acts after the approval of Law No. 137/2020 are presented in the table below.

⁵ Law no.137/2020 "On the budget of 2021"

Table no.4 Budget reviews with NA according to the fiscal indicators

Million ALL

| Item | | Budget Law | NA no.4, 05.02.21 | NA no.8, 22.03.21 | NA no.18, 12.04.21 | NA no.26, 22.06.21 | NA no.31, 27.10.21 | NA nr.34, 03.12.21 |
|------|-------------------------|------------|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| A | Total Revenue | 484,106 | 487,526 | 487,526 | 489,526 | 489,526 | 489,526 | 507,727 |
| I | Grants | 20,353 | 20,353 | 20,353 | 20,353 | 20,353 | 20,353 | 19,353 |
| II | Tax Revenue | 442,153 | 445,573 | 445,573 | 447,573 | 447,573 | 447,573 | 466,773 |
| 1 | From tax offic. customs | 316,172 | 319,592 | 319,592 | 320,792 | 320,792 | 320,792 | 332,792 |
| 2 | Revenues from loc gov. | 25,426 | 25,426 | 25,426 | 25,426 | 25,426 | 25,426 | 25,926 |
| 3 | Special funds | 100,555 | 100,555 | 100,555 | 101,355 | 101,355 | 101,355 | 108,055 |
| III | Nontax Revenue | 21,600 | 21,600 | 21,600 | 21,600 | 21,600 | 21,600 | 21,600 |

Source: MFE data processed by ALSAI

Furthermore, the audit at the MFE has found differences between the revenue values budgeted at NA no.34 operational plan and the carried values on the Government's Financial Information System (GFIS), mainly in the grants but also in tax revenues (those from local government) as well as in the structure of non-tax revenues. Thus, the reports built and provided by SIFQ for budget planning purposes are not used by the General Budget Directorate as a way of checking the accuracy of the initial and operating budget detailing, as far as the system creates these possibilities to make all the possible checks for the registrations up to the necessary analyses for monitoring the budget implementation.

ALSAI has concluded that the Normative Acts approved on annual budget law changes do not reflect all the changes the budget law underwent during the year through reallocations and redistributions before their approval due to the necessity to be coherent with unplanned developments and policies, creating confusion and not reconciling the analytical items of the plan according to fiscal indicators.

According to the consolidated budget fiscal indicators and the audit at the MFE, the realized revenue in total was 510,572 million ALL, from 507,727 million ALL planned on the NA no.34, dated 03.12.2021, with an excess of 2,845 million ALL or 100.6% and 5.4% more than the planned one at the initial budget law, as well as almost 14% more than the previous year's performance. It should be noted that the budget revenues in 2021 are the highest achieved in the period 2016-2021.

The total budget revenues of 2021 represent 28.8% of the Gross Domestic Product, with an increase of 0.5% compared to 2020.

Budget revenues are grouped into three main items in the table below.

Table no.5 Total revenues by groups

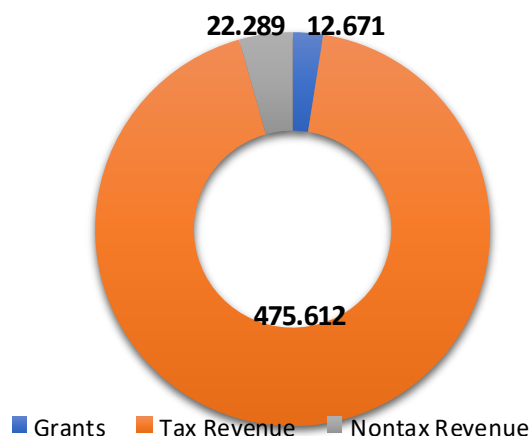
Million ALL

| | Item | Law no.137/2020 | NA no.34 03.12.2021 | Realized | % to the NA | Dif .+, - To the NA | % to the law |
|----|----------------|-----------------|---------------------|----------|-------------|---------------------|--------------|
| 1. | Total Revenue | 484,106 | 507,727 | 510,572 | 100.6 % | + 2,845 | 105.4 % |
| a) | Grants | 20,353 | 19,353 | 12,671 | 65.5 % | - 6,682 | 62 % |
| b) | Tax Revenue | 442,153 | 466,773 | 475,612 | 101.9 % | + 8,838 | 107.5 % |
| c) | Nontax Revenue | 21,600 | 21,600 | 22,289 | 103.2 % | + 689 | 103.2 % |

Source: MFE data processed by ALSAI

Chart no.2 Total revenue realized by the three main groups

Million ALL

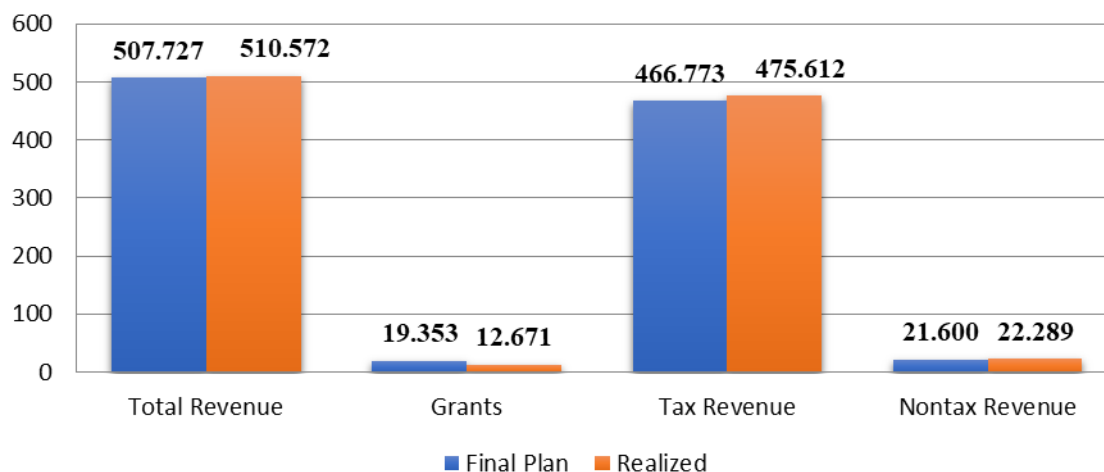


Source: MFE data processed by ALSAI

In the budget revenues, the main percentage is occupied by tax revenues with 93%, followed by non-tax revenues and grants, respectively 4% and 3%.

Chart no.3 Final plan and the realization of the main items of the budget

Million ALL



Source: MFE data processed by ALSAI

a) Even though the grants (which include income received from aid provided by governments of other countries and other donors) have decreased at the end of 2021, they are realized for 12,671 million ALL, or 65.5% of the plan, with a non-realization of 6,682 million ALL, although they are 1.5 times more than last year.

According to the macroeconomic fiscal framework of the MTBP 2021-2023, for 2021, the grants have been estimated at 17,353 million ALL, of which 6,353 million ALL were budgetary support from the EC and 11,000 million ALL were for designated projects. On the budget law and subsequent amendments, although it is overrated, the realization of grants is significantly below this prediction and the amended budget law.

b) Tax revenues include revenues from tax offices and customs, revenues from local governments, and revenues from special funds, which for 2021 results as below.

Table no.6 Tax revenues realized by items

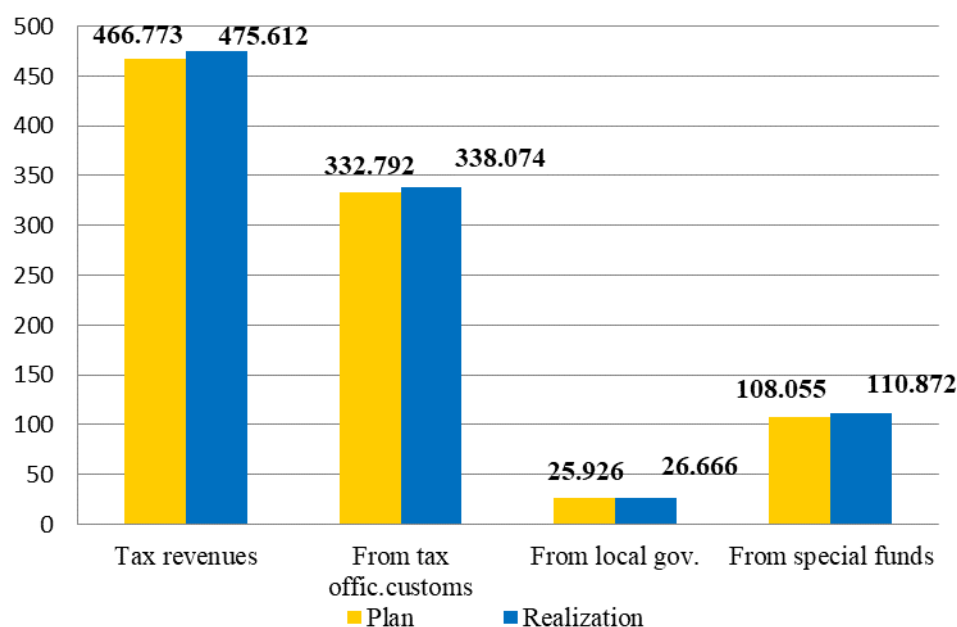
Million ALL

| No. | Item | NA no.34 03.12.2021 | Realized | Realized % | Dif .+, - To the plan |
|-----|--------------------------------|------------------------|----------|------------|--------------------------|
| 1. | Tax Revenue | 466,773 | 475,612 | 101.9 % | + 8,838 |
| a) | <i>From tax offic. customs</i> | 332,792 | 338,074 | 101.6 | + 5,282 |
| b) | <i>Revenues from loc gov.</i> | 25,926 | 26,666 | 102.9 | + 740 |
| c) | <i>Special funds</i> | 108,055 | 110,872 | 102.6 | + 2,817 |

Source: MFE data processed by ALSAI

Chart no.4 Final Plan and the realization of the main tax revenue items

Million ALL



Source: MFE data processed by ALSAI

The total tax revenues were realized for 475,612 million ALL from 466,773 million ALL planned or to the extent of 101.9% and represent 93% of the total income. Compared to the years 2019 and 2020, tax revenues increased respectively for 49,341 million ALL and 76,954 million ALL.

Revenues from tax offices and customs are realized for 338,074 million ALL from 332,792 million ALL planned or 101.6%, in which the main weight is held by income from VAT with 48%, excise tax 15%, national taxes and other 12.5%, personal income tax 12%, profit tax 10.5% and customs duties 2%.

Revenues from the local government have been realized for 102.9%, exceeding the plan for 740 million ALL, reaching a high level of these revenues.

Revenues from special funds, which represent revenues and contributions from social institutions such as social insurance, health insurance, and revenues for the owner's in values compensation are realized for 110,872 million ALL from 108,055 million ALL planned or 102% or

13,173 million ALL more than the last year.

According to the macroeconomic, fiscal framework of the MTBP 2021-2023, tax revenues have been planned at 466,426 million ALL, and although this value is not taken into account in the initial budget law, it is increased with subsequent changes, being realized and exceeded. Analyzed according to the relevant items, although the revenues from tax offices and customs have been estimated at 335,000 million ALL, they are not planned at such a level in the annual budget law and neither on the subsequent amendments, although they were exceeded.

It happened differently with special funds, which according to the MTBP, were 106,000 million ALL, not provided in the initial budget law, increased with the upcoming amendments, realized and exceeded.

While the revenues from the local government have been respected as provided in the MTBP in the initial budget law and then revised upwards, exceeding the revenues for this item of the budget.

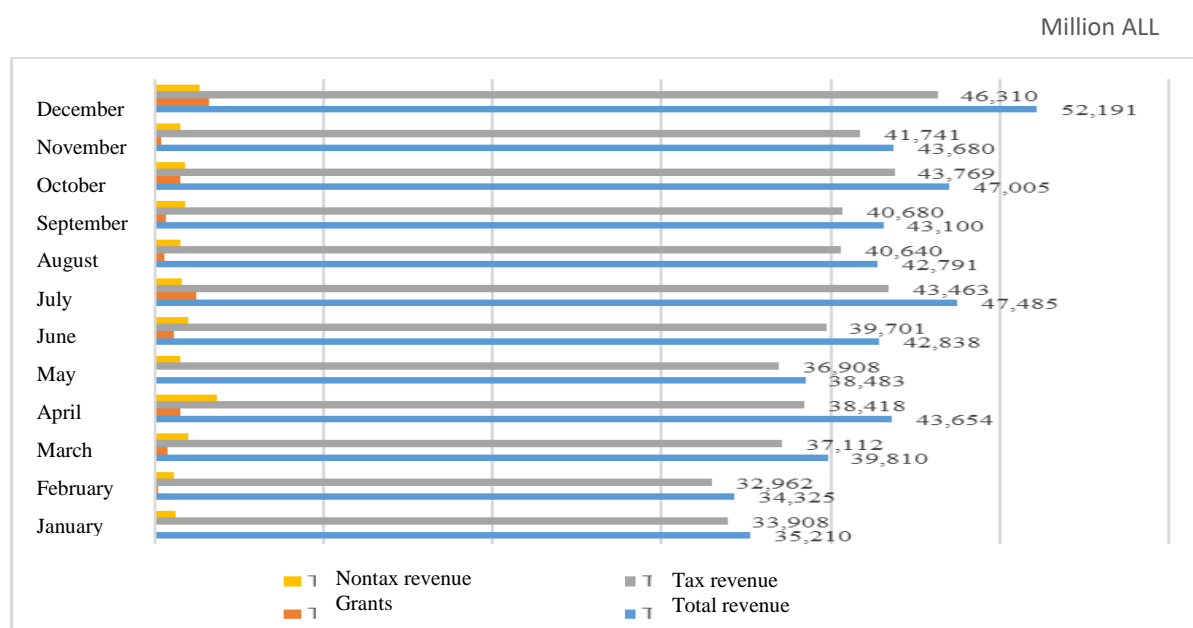
c) Nontax revenues (which represent: profit transfer from the Bank of Albania at 6.7%, revenue from budgetary institutions at 58.1%, dividend at 0.1%, service fees at 12.8%, and others at 22.27%) are realized for 22,289 million ALL out of 21,600 million ALL planned, or 103%, despite the non-realization in two sub-items: 536 million ALL on other revenues and 285 million ALL on the revenues from budgetary institutions.

Compared to the previous year, non-tax revenues are presented with an increase of over 3,000 million ALL, thus reaching the average rates of previous periods.

Considering the macroeconomic fiscal framework and its indicators of special importance in determining the strategic priorities of the government and the goals and objectives related to the main indicators of the fiscal policy, the levels of changes and their realization show once again that there is a lack of accuracy in predicting the analytical indicators of revenues annually and in the medium term.

As for the analysis of the monthly progress of revenue collection during 2021, it results that in the month of February is the lowest level of total revenues and tax revenues in particular, and the month of December presents the highest level, with an increase of 40-50% of them, which shows once again the non-systematic work of the institutions charged with the collection of the revenue.

Chart no.5 Revenue realization by month during 2021



Source: MFE data processed by ALSAI

1.1. Revenues from tax offices and customs

According to the MFE Report, revenues from tax offices and customs consist of VAT, Profit Tax, Excise tax, Personal Income Tax, National taxes, and other Customs Tax.

Table no.7 Revenues from tax offices and customs

Million ALL

| No. | Item | First Plan | Revised Plan | Realization | % of Realization | Difference fact-plan | Specific weigh on % |
|--|--------------------------|----------------|----------------|----------------|------------------|----------------------|---------------------|
| 1 | V.A.T. | 148,641 | 160,061 | 161,536 | 101 | 1,475 | 47.8 |
| a | V.A.T. on import | 109,041 | 118,751 | 131,301 | 111 | 12,550 | 38.8 |
| b | V.A.T. within country | 39,600 | 41,310 | 30,235 | 73 | - 11,075 | 8.9 |
| c | V.A.T. Reimbursed | 17,000 | 17,000 | 24,102 | 142 | 7,102 | 7.1 |
| 2 | Profit tax | 33,031 | 33,631 | 35,610 | 106 | 1,979 | 10.5 |
| 3 | Excise tax | 49,000 | 51,400 | 51,637 | 100 | 237 | 15.3 |
| 4 | Personal Income Tax | 41,000 | 41,200 | 39,312 | 95 | - 1,888 | 11.6 |
| 5 | National taxes and other | 38,000 | 39,500 | 42,521 | 108 | 3,021 | 12.6 |
| a | National taxes | 35,600 | 35,600 | 40,076 | 113 | 4,476 | 11.9 |
| b | Mining rent | 2,400 | 3,900 | 2,445 | 63 | - 1,455 | 0.7 |
| 6 | Customs duties | 6,500 | 7,001 | 7,457 | 107 | 456 | 2.2 |
| Tax offices and customs total | | 316,172 | 332,794 | 338,074 | 102 | 5,280 | |
| Contributs collected from GDT | | 96,655 | 103,355 | 106,266 | 103 | 2,911 | 23.92 |
| Tax offices, customs contributs Total | | 412,827 | 436,149 | 444,340 | 102 | 8,191 | 100 |

Source: MFE data processed by ALSAI

According to the initial budget law for 2021, revenues from tax offices and customs were planned to be 316,172 million ALL and according to the amendments made with the normative acts, they are increased by more than 5%, with a final plan of 332,794 million ALL.

According to the MFE report and the audits held in the General Directorate of Taxes (GDT) and the General Directorate of Customs (GDC), the total revenue realized was 338,074 million ALL or 102%, with an excess of 5,280 million ALL. Although the total revenue is exceeded, according to the items and sub-items of taxes and duties, results that the following items have not been realized:

VAT within the country for 11,075 million ALL,

personal income tax for 1,888 million ALL and

mining rent for 1,455 million ALL.

On the tax offices and customs revenues realized, VAT occupies the largest part of 47.8%, followed by excise tax revenues 15.3%, national tax 12.6%, etc.

Tax offices and customs revenues in 2021 were realized for 59,089 million ALL more than in 2020 or 21% more.

Social and health contributions in the initial budget law are planned for 96,655 million ALL and revised with the NA in the amount of 103,355 million ALL and realized for 106,266 million ALL or 102.8%. In addition, social and health insurance contributions collected from the tax system are 12,145 million, ALL more than in 2020.

It should be noted that the revenues collected from the unpaid tax obligations (tax debt) totaled 1,654.5 million ALL, accounting for approximately 1% of the total revenue.

Referring to the reports of the General Directorate of Taxes (DPT) results that at the end of 2021, there is a total of 119,324 active taxpayers, with an addition of 995 subjects compared to 2019, as well as 11,496 taxpayers have moved to the passive register, from 10,748 in 2019, considered the year before the pandemic.

Tax offices and customs revenues, including social and health contributions, represent 87% of the total revenue in the country, as well as 25.1% of the Gross Domestic Product.

From the audits held in the GDT and GDC, it has been found that the total debt value, tax, customs, and for social and health insurance of tax-paying entities at the end of 2021 was 180,646,268 thousand ALL, with a net increase of 13,123,923 thousand ALL during this year (increases- decreases), or a 7.3% annual increase.

Table no.8 Debt Obligations 2021

Million ALL

| No. | Item | Amount at the beginning fo 2021 | Additions during 2021 | Reduction during 2021 | Total obligations amount 2021 |
|--------------|---|---------------------------------|-----------------------|-----------------------|-------------------------------|
| 1. | Total value of the tax debt | 122,468,410 | 33,418,191 | 20,951,919 | 117,191,167 |
| | Value for tax obligations | 105,502,610 | 23,956,127 | 12,267,571 | 117,191,167 |
| | Value of social and health insurance debt | 16,965,800 | 9,462,064 | 8,684,348 | 17,743,515 |
| 2. | Value of customs debt | 45,053,939 | 1,264,814 | 607,166 | 45,711,586 |
| Total | | 167,522,349 | 34,683,005 | 21,559,085 | 180,646,268 |

Source: GDT and GDC data processed by ALSAI

From the audit at the GDT results that during 2021 the number of debtor subjects is increased by 23,850 debtors, while the total tax liabilities had a significant increase in the amount of 12,466,272 thousand ALL, compared to the year 2020, where the annual increase in liabilities was a value of 5,474,183 thousand ALL. This indicates that the stock of outstanding liabilities increases at a faster rate than it decreases (collects), especially from the entities administered by the Central RDT, where the value of the increased obligations is about twice the reduced ones. We point out that in total, the principal of accumulated tax liabilities constitutes about 60% of the total value, followed by penalties (fines) at 35% and 5% for interest.

From the total value of the tax debt (including social and health insurance), balance on 31.12.2021 of 134,934,682 thousand ALL results that 14,298,412 thousand ALL, or 11% of the total, which belongs to 1592 subjects, is in the judicial process.

At the GDT, active and passive subjects represent 43% and 57% of the total number of debtor subjects, respectively, with the respective values of 46,830 million ALL and 88,104 million ALL, representing 35% and 65% of the total amount of debt. As long as these entities do not continue their activity, the number and value of their unpaid liabilities, as well as the fact that 78% of their debt belongs to over two-year periods, significantly increase the difficulty of collecting these obligations.

Unpaid social and health insurance obligations at the end of 2021 result in a value of 17,743,515 thousand ALL, of which 7% is in the judicial process, with a net increase (additions-decreases) of obligations in the amount of 777,716 thousand ALL. It should be highlighted that, as in other types of taxes, there is great difficulty in fully collecting the obligations due to the age of the debt, where 62% of it belongs to an over 2 years period.

The audit at the GDC found that during 2021 the customs debt increased to the value of

1,264,813 thousand ALL and was reduced to 607,166 thousand ALL, which shows that there continues to be an increasing debt trend compared to 2020 in the amount of 657,648 thousand ALL.

In the balance of liabilities at the end of 2021, customs duties represent 28% of the total, penalties 57%, and late interest 15%, which shows that the age of the debt over 5 years represents 54% of all customs duties.

In addition to the above, the audit at the GDT found that on 31.12.2021, there are credit obligations carried over over the years (financial obligations of the GDT against tax-paying entities for prepaid tax values and unclaimed VAT) on the value of 98,497 million ALL, obligations that are demandable immediately and may put the tax administration in difficulty.

1.1.1 Revenue from Value Added Tax (VAT)

On the tax revenues in the 2021 budget law, MFE has planned VAT revenues of 148,641 million ALL, which are revised on the NA no.34 dated 03.12.2021 to 160,061 million ALL. VAT revenues totaled 161,536 million ALL, representing a 100.9% increase over the amended plan, according to the MFE report.

The revenues realized from VAT for the year 2021 constitute 32% of the total revenues, as well as 9.4% at the GDP level, referring to the IMF projections, October 2021.

The total revenues from VAT are realized to the extent of over 80% from the customs system and the rest from the tax system.

Table no.9 Revenues realized from VAT upon the structure

Million ALL

| No. | Item | Plan | Fact | Realization (%) |
|-----|-----------------------|---------|---------|-----------------|
| 1 | Total VAT | 160,061 | 161,536 | 100.9 |
| a | V.A.T. on import | 118,751 | 131,301 | 110.6 |
| b | V.A.T. within country | 41,310 | 30,235 | 73.2 |

Source: MFE data processed by ALSAI

A. According to MFE, the General Directorate of Customs initially planned 109,041 million ALL revenues from VAT, which revised on the NA results on the value of 118,751 million ALL or with an increase of 9,710 million ALL. From the audit at the GDC, it was found that the revenue from VAT on import was realized in the amount of 131,301 million ALL, or 110.6% and 12,550 million ALL more, which has had a positive impact on the realization of total VAT revenues, covering also the non-realization of GDT for this item of taxes.

B. The audit at the General Directorate of Taxes it results that the revenue from gross VAT in the initial budget law was planned at 56,600 million ALL and has been revised upward by NA no. 4, dated 05.02.2021, to 58,310 million ALL, without changing the VAT refund of 17,000 million ALL.

Although VAT continues to be the main contributor to public revenues with 32.3% of tax revenues, on the part of GDT for 2021, in gross terms, 54,461.5 million ALL were realized, or 93.4% of the plan, with a non-realization in the amount of 3,848.5 million ALL, as an impact of the COVID-19 situation, in addition to planning deficiencies. Compared to 2020, VAT revenues have been receivable about 18% more or 8,287 million ALL more.

GDT has not realized the revised planned revenues of net VAT for the amount of ALL 10,959

million since this item is realized for 30,359 million ALL out of the 41,310 million ALL revised on the NA no.18, dated 14.04.2021, or 73.5%. This is due not only to the non-collection of VAT revenues and the creation of new obligations, the impact of the COVID-19 consequences, but also to exceeding the reimbursement plan by 42%.

Table no.10 V.A.T. realization, plan, and reimbursement

Million ALL

| No. | Item | Realization 2020 | Budget Law 2021 | NA no.4, dated 05.02.2021 | Realization 2021 |
|----------|-----------------|---------------------|--------------------|------------------------------|---------------------|
| 1 | V.A.T. (bruto) | 46,175 | 56,600 | 58,310 | 54,461.5 |
| | - V.A.T. (net) | 29,663 | 39,600 | 41,310 | 30,359 |
| | - Reimbursement | 16,511.5 | 17,000 | 17,000 | 24,102 |

Source: GDT data processed by ALSAI

Results show that net V.A.T. revenues have not been realized for 10,950 million ALL, due to the nonrealization of V.A.T. (gross), but also due to the unchanged reimbursement plan and the exceeding value by 42%: from 17,000 million ALL planned for V.A.T. reimbursement, 24,102 million ALL were actually reimbursed, with an excess of 7,102 million ALL.

Analyzing the progress of the annual budget changes it results that on the part of the Ministry of Finance and Economy, a fair ratio was not observed between the planned increase in gross V.A.T. revenue and its reimbursement, resulting in deficiencies in the net value of V.A.T.

Compared to 2020, net V.A.T. has a negligible increase at a time when gross V.A.T. has a revenue increase of 18% compared to the previous year due to the significant excess of V.A.T. reimbursement.

From the audit in GDT related to the implementation of the procedure for granting authorizations for V.A.T. exemption in the reconstruction process, it was found that in the GDT, the monitoring process for regional directorates has not been implemented, resulting in a lack of data for the indicators that serve for the calculation of V.A.T. such as the value of exempt investments and their impact on V.A.T. revenues, leaving this process unmonitored and creating increased risks in the administration of VAT revenues. In addition to the above, for the authorizations for V.A.T. exemption of subcontractors, the written approval of the contracting authorities in the procurement of the reconstruction process according to the legal, by-law, and regulatory provisions misses, creating difficulties in monitoring this process by all actors, in addition to the deformation of the procurement process, and the creation of potential risks for the evading of V.A.T. payment by subcontractors.

V.A.T. Reimbursement

The V.A.T. reimbursement plan has not changed in the initial budget law as well as with the subsequent amendments with the NA, maintaining a value of 17,000 million ALL. From the audit at the GDT, results were to be reimbursed 24,102 million ALL, or 7,591 million ALL, more than a year ago.

GDT has reported to MFE the refund stock in the amount of 476,650 thousand ALL, while from the audit of ALSAI in GDT, this stock has resulted in the value of 2,370,259 thousand ALL, or 1,893,609 thousand ALL more than the reporting of GDT. This finding comes from the fact that at the end of the 2021 exercise period, 69 requests for V.A.T. refunds were received but not approved for the total value of 1,893,609 thousand ALL, which have passed the maximum period of 60 days from the date of their presentation and have not been reimbursed.

The non-payment of V.A.T. refunds on time continues to be a problem, increasing the stock of refunds with the consequence of representing an unrealistic level of V.A.T. items on revenues.

The audit at the GDT results that a significant weight in the value of the V.A.T. refund is occupied by installment payment agreements since, for 2021, has been paid a total of 10,753,352 thousand ALL, which belongs to 71 requests.

The audit at the GDT has found problems related to the reimbursement of the taxpayer "Trans Adriatic Pipeline AG Albania." GDT negotiated with the entity in 2020 to conclude an agreement for payment in installments, but the entity has proposed to review the terms of the agreement to include the calculation of interest, which doesn't find legal support in the Council of Ministers Decision CMD no. 146 dated 13.02.2020 "On the procedures and criteria of the agreement for payment in installments of value added tax, approved for reimbursement." In 2021, the GDT continued the full liquidation in installments of the taxpayer and added the calculated value of late interest without having a signed agreement. In December 2021, the taxpayer requested from the GDT the payment of obligations from interest for late reimbursement in the amount of 882,688 thousand ALL. This value has been recognized and agreed in the amount of 806,619 thousand ALL and sent for judgment and evaluation to the MFE. Based on the above, in relation to VAT refund procedures in subjects with significant values without signing an installment payment agreement represents an increased risk for ineffective spending of the state budget.

1.1.2. Profit Tax Revenues

According to the MFE report, revenues from profit tax for the year 2021, according to the budget law, were planned to be 33,031 million ALL, with the changed plan being 33,631 million ALL and realized at 35,610 million ALL, or 105.9% and 1,979 million ALL above the revised planning. It should be noted that 25.8% of revenues are realized more than in 2020.

Profit tax represents 7% of state budget revenues.

From the audit at the GDT, results show that tax profit revenues were realized in the amount of 35,664 million ALL, with an exceedance of 2,033 million ALL or 6% more.

Revenues tax liabilities at the end of 2021 result in a value of 38,753 million ALL, with a net annual increase of 5,361 million ALL.

From the audit at the DPT, it was found that in the composition of the collected revenues of the actual year, structured according to the nature and type of income, there are also the incomes accounted for on the account 466 "Assets in custody," which represents unidentified collections with liability in C @TS until their settlement in the amount of 27,217 million ALL. The operation of this account mostly includes the accounting of payments for income tax installments for the value of 26,781 million ALL, which still does not have a final statement in the system at the time of payment as it declares and is fixed after closing the financial statements.

It is found that this account has the largest movements in the month of December, affecting the total tax revenues reported by GDT for the exercise period, as well as the accuracy of reporting the revenues by items in the dedicated accounts according to the budget classification in accordance with Instruction no. 8 dated 09.03.2018, point 2.3.

In this way, the above value, which was left pending and not accounted for in the revenues account, affects the real reporting of revenues as a result of the prepayments by the taxpayer.

1.1.3. Personal Income Tax Revenues

According to the MFE report, personal income tax was initially planned in the budget law for 2021 at 41,000 million ALL, and then it was changed by the NA to 41,200 million ALL and realized for 39,312 million ALL or with a nonrealization of 1,888 million ALL, not even realizing the initial plan, despite the increase of 6% more than a year ago.

Personal income tax represents 7.7% of total budget revenues.

From the audit at the GDT, it was found that personal income tax was realized for 43,801 million ALL, or 106.9%, with an excess of 2,601 million ALL from the planned value.

Results that the debt with an age of "up to 1 year" for personal income tax is 385 million ALL, and the balance of liabilities at the end of 2021 results in 2,230 million ALL.

GDT only for the month of December 2021, in 13 proposals for further verification for 742 citizens, for the accuracy of the procedures related to the tax assessment on undeclared and untaxed personal income, has found a total of 24.5 million undeclared ALL, which shows that there is still much to be done in this regard by the control structures of the tax administration on revenue collection.

1.1.4 . National Taxes and other

National taxes and other on the budget law were planned for 38,000 million ALL, changed by the normative acts to 39,500 million ALL, and realized for 42,521 million ALL or 107.6%, about 19% more than the year 2020.

National taxes and other represent 8% of the total budget revenues and consist of 94% of national taxes and the rest from mining rents.

The national taxes and other "national taxes and fees" administered by GDT have been planned in the amount of 35,600 million ALL. Mining rent as part of national taxes has been planned for 3,900 million ALL, which is under the responsibility of the collection of the General Directorate of Customs.

The audit at the GDT shows that national taxes on road traffic, gambling, and other taxes together have been realized in a total amount of 34,782 million ALL, with a non-realization of 818 million ALL, mostly identified in the national taxes and that of road traffic (respectively -785 and -794 million ALL), but the revenues from gambling were exceeded by 650 million ALL.

Mining rent is administered by GDC, and was planned on the budget law at 2,400 million ALL, and in the final plan, it was 3,900 million ALL (NA no.34, dated 03.12.2021), and 2,445 million ALL have been collected, with a realization of 62.7%, creating a deficit in the revenues from this item of 1,455 million ALL, despite the fact that they are presented with a 36% increase from 2020 and less than 2019.

As for the reconciliation of the reported data, by comparing the data reported by GDT with those of MFE, differences were found for V.A.T. revenues, which at GDT is reported at over the value of 124 million ALL; revenues from profit tax are reported at the value of 54 million ALL; personal income tax is reported more for 4,489 million ALL, while the revenues from national taxes and other are reported at the value of 5,294 million ALL.

Regarding the reporting of tax revenues, it is established that the revenues from fines imposed by the tax system during 2021, in the amount of 633,826 thousand ALL, are reported as tax revenues at a time when, according to the relevant legislation, they should be included in non-tax revenues.

Thus, there are differences between the data of the MFE, which is responsible for the consolidation of the fiscal indicators of the state budget, and the data of GDT, as a result of different reporting methodologies used by these two institutions.

1.1.5. Customs Revenues

The customs revenue plan, approved by Law no. 137/2020, dated 06.11.2020, "On the 2021 budget," underwent three changes during 2021, according to the Normative Acts (NA) no. 4, dated 05.02.2021; NA no. 18, dated 14.04.2022 and NA no. 34, dated 03.12.2022.

Referring to the budget law and the above changes, the final plan of customs revenue in 2021

results in a value of 181,051 million ALL, with an increase of 14,110 million ALL, or 8.4% more, compared to the initial plan.

Planning by the customs revenue items, compared to the previous budget year 2020, results in an increase as below:

- V.A.T. at the rate of 17.4%, or in the amount of 17,651 million ALL;
- Excise duty at the rate of 13.4%, or in the amount of 6,100 million ALL;
- Customs taxes in the amount of 8.3% or the amount of 540 million ALL;
- Mining rent with an increase of 52.3%, or in the amount of 1,340 million ALL.

Compared to the 2020 revenue plan, the 2021 revenue plan has increased in absolute value in the amount of 25,631 million ALL, or 16.5% more, while compared to 2019, the 2021 plan is designed with an increase in the amount of 9,246 million ALL, or 5.4% more.

Chart no.6 Customs revenue trend in planning



Source: GDC data processed by ALSAI

ALSAI has found that the final plan of customs revenues reported by GDC is not the same as the plan of customs revenues according to the "Table of consolidated fiscal indicators of the state budget." The final plan reported by GDC refers to NA no. 18, dated 14.04.2021, sent to GDC with MFE letter no. 8443, dated 12.05.2021, for a total value of 169,051 million ALL, while MFE refers to the final customs revenue plan according to NA no. 34, dated 03.12.2021, for a value of 181,051 million ALL, with a difference of 12,000 million ALL.

As for the process of planning, detailing, and monitoring revenues at the customs branch level, it is found that there is no well-defined methodology.

From the audit held at the GDC, it is found that the realization of the revenues from the Customs Administration for the year 2021, reconciled with SIFQ and according to the consolidated indicators of the state budget, is in the amount of 193,166 million ALL (gross income) and 192,841 million ALL (net income), since during the year 2021, there was an excise refund in the amount of ALL 325 million. The realization of customs revenues against the plan in 2021, in gross terms, results in the amount of 106.7%, or 12,115 million ALL more, and in net terms, results in the amount of 106.5%, or 11,790 million ALL more than the plan.

Table no.11 Revenues plan and realization by items

Million ALL

| No. | Revenues structure | Final Plan | Fact | Difference Fact/Plan | Realization % | Weight % |
|-----|--------------------|------------|---------|----------------------|---------------|----------|
| 1 | Customs Taxes | 7,000 | 7,458 | 458 | 106.5 | 3.8 |
| 2 | Excise Tax | 51,400 | 51,962 | 562 | 101.1 | 27.0 |
| 3 | V.A.T. Import | 118,751 | 131,301 | 12,550 | 110.6 | 68.0 |
| 4 | Mining Rent | 3,900 | 2,445 | (1,455) | 62.7 | 1.2 |
| 5 | Total | 181,051 | 193,166 | 12,115 | 106.7 | 100 |

| | | | | | | |
|---|----------------------|---------|---------|--------|-------|--|
| 6 | Excise Reimbursement | | (325) | | | |
| | Net Total | 181,051 | 192,841 | 11,790 | 106.5 | |

Source: GDC data processed by ALSAI

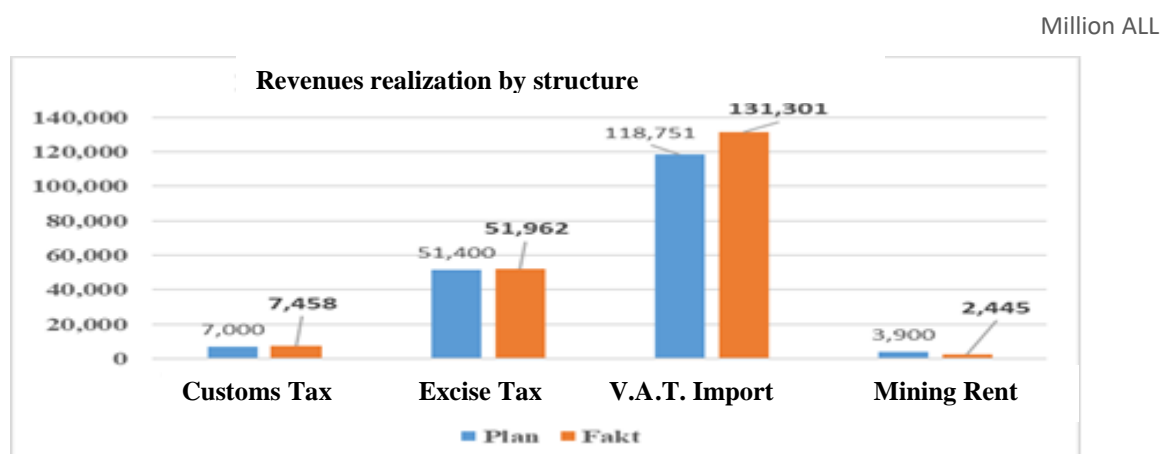
The realization of customs revenues in 2021, compared to the previous two years, shows an increase in the amount of 28,207 million ALL more than in 2019 and 39,539 million ALL more than in 2020. Revenues increase has come as a result of the liberalization of anti-Covid measures and the increased import volume.

From the analysis of 60 groups of main items, which represent 89% of the total customs revenue, it is found that the increase in revenues is the result of the increased volume of the imports to the extent of 75%, and the change of revenue per unit to the extent of 25%.

During 2021, VAT revenues result in excess of ALL 12,550 million, or + 6%;

Excise revenues result in excess of 562 million ALL or +1.1%, and Customs Tax revenues result in excess of 458 million ALL or +6.5%. Revenues from mining rents result in non-realization in the amount of 1,455 million ALL or 62.7%, but those did not affect the realization of customs revenues in total because the specific weight of these revenues to the total represents a low level of 1.2%.

Chart no.7 Customs revenue realization by structure



Source: GDC data processed by ALSAI

Excise revenues come as a result of the application of the tax rate according to Law no. 61/2012, "On excise duties in the Republic of Albania," as amended.

During 2021, the realization of net revenue from excise duty, which accounts for 27% of customs revenue, results in the amount of 51,637 million ALL from the planned one for 51,400 million ALL, with an excess of 237 million ALL, or 1% over the plan. The realization of gross excise tax revenue is 51,962 million ALL, and the refund value is 325 million ALL.

Compared to 2020, the realization of (net) revenue from excise tax is presented with an increase of 15.9%, and compared to 2019, it results in an increase of 10.6%.

Table no.12 Excise tax revenues by categories

Million ALL

| No. | Item | Unit | Quantity | | | Excise Tax | | |
|-------|-------------------|-----------------|----------|---------|---------|------------|--------|--------|
| | | | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 |
| 1 | Tob. Cigaretts T. | Ton | 3,096 | 2,847 | 3,093 | 17,594 | 17,052 | 19,862 |
| 2 | Total Beer | Thousand liters | 89,318 | 80,815 | 89,974 | 2,384 | 2,176 | 2,219 |
| 3 | Alcoh. Drinks T. | Thousand liters | 2,003 | 1,426 | 2,180 | 444 | 327 | 475 |
| 4 | Total Wine | Thousand liters | 6,552 | 5,053 | 6,739 | 300 | 257 | 330 |
| 5 | Energy Drink T. | Thousand liters | 11,489 | 13,784 | 18,002 | 0 | 0 | 0 |
| 6 | Coffe | Ton | 8,618 | 8,162 | 8,941 | 444 | 411 | 441 |
| 7 | Total fuel | Ton | 599,049 | 546,023 | 631,374 | 25,356 | 23,144 | 26,850 |
| 8 | Liquid Gas | Ton | 139,560 | 151,912 | 179,767 | 734 | 748 | 665 |
| 9 | Others | | | | | 1,052 | 1,001 | 1,120 |
| Total | | | | | | 48,307 | 45,116 | 51,962 |

Source: GDC data processed by ALSAI

In 2021 there was an increase in the volume of imports for "Energy drinks" items by 6,513 thousand liters more; "Fuel" by 32,325 tons more, and "Liquid gas" by 40,207 tons more compared to the year 2019, while for other items, almost the same level of import volume has been maintained.

VAT revenues in 2021 were realized in the amount of 131,301 million ALL, with an excess in absolute value in the amount of 12,550 million ALL, or 110.6%, compared to the plan. The realization of these revenues compared to the previous two years is presented with an increase. Compared to 2019, the revenue from V.A.T. on imports was increased to the amount of 23,765 million ALL, or 22.1% more, and compared to 2020, it was increased to the amount of 12,550 million ALL, or 30.6%.

The increased revenue in V.A.T. on imports, which represents the highest specific weight in V.A.T. revenue at almost 81%, is enabled by the release of anti-Covid measures after the global pandemic situation, the increase in imports, as well as some prices with a high specific weight in the realization of customs revenues, such as fuel, energy, metals, etc.

Customs Tax Revenues in 2021, which represents only 3.8% of the realization of customs revenues in total, result in the amount of 7,458 million ALL from the planned 7,000 million ALL, with excess in absolute value in the amount of 458 million ALL, or to the extent of 6.5% more than the plan.

Compared to the year 2020, the realization of customs tax revenue is with an increase in the amount of 1,216 million ALL, or 19.4% more, and compared to the year 2019, it results in an increase of 15.9% more.

Mining Rent Revenues in 2021 are realized in the amount of 2,445 million ALL, or 62.7%, against the planned revenue in the amount of 3,900 million ALL, with a nonrealization in the amount of 1,455 million ALL.

Compared to the previous year, the realization of mining rent revenue increased to the extent of 37.9%, but compared to 2019, this realization is presented with a decrease of 8.2%.

Table no.13 Mining rent revenues

Million ALL

| Items | Realizimi i të ardhurave nga renta minerare | | | Diference Value | Diference Value | Diference % | Diference % |
|---------------------------------|---|-----------|-----------|-----------------|-----------------|-------------|-------------|
| | 2019 | 2020 | 2021 | 2021/2019 | 2021/2020 | 2021/2019 | 2021/2020 |
| Crude Oil/ Petroleum Gro. | 2,193,523 | 1,340,824 | 1,968,914 | -224,609 | 628,090 | -10.2 | 46.8 |
| Mineral | 469,605 | 431,206 | 476,140 | 6,535 | 44,934 | 1.4 | 10.4 |
| Total | 2,663,128 | 1,772,030 | 2,445,054 | -218,074 | 673,024 | -8.2 | 37.9 |

Source: GDC data processed by ALSAI

Revenues from rent (crude oil) in 2021 compared to 2020 are increased to the amount of 628 million ALL, while compared to 2019, they are presented with a decrease of 224 million ALL.

The realization of rent revenue was influenced by the price of imported crude oil; the increase of rent tax per unit from 2.28 ALL/ton to 3.19 ALL/ton, as well as the reduction of oil exports and mineral exports, has had a negative impact.

The General Directorate of Customs, at the end of 2021, results in a stock of customs debt in the amount of 45,711,586 thousand ALL, represented by 4,688 cases. Referring to the structure, it is found that the debt stock consists of: penalties in the amount of 25,965,427 thousand ALL (57%); customs duties in the amount of 12,920,276 thousand ALL (28%), and arrears in the amount of 6,825,884 thousand ALL (15%).

Table no.14 Customs debt 2017-2022 according to GDC

Million ALL

| Period | Cases | Total | Increase / Decrease value | % to value |
|--------|-------|------------|---------------------------|------------|
| 2017 | 4,251 | 23,946,599 | | |
| 2018 | 4,520 | 27,596,148 | 3,649,549 | 15% |
| 2019 | 4,364 | 41,972,864 | 14,376,716 | 52% |
| 2020 | 4,708 | 45,053,939 | 3,081,075 | 7% |
| 2021 | 4,688 | 45,711,586 | 657,647 | 1% |

Source: GDC data processed by ALSAI

The audit at the DPD shows that the customs debt at the end of 2021, compared to 2020, is increased in the amount of 657,647 thousand ALL, or by 1% more.

The customs debt created in 2019, as a result of the transfer from the General Directorate of Taxes (GDT), with a value of 13,387,702 thousand ALL and a specific weight of 29% against the total debt stock of 2021, continues to have a significant impact on the stock of customs debt, on the implementation of MFE Instruction no.9, dated 11.03.2019 "On the modalities of transfer to the Customs Administration of data for excise subjects resulting in unpaid obligations."

From the analysis of the stock of debt at the level of the customs branch, it has been found that the Tirana Customs Branch occupies the main weight of the stock of customs debt on 31.12.2021 to the extent of 39.69%, Fier Customs Branch in the amount of 31.28% and Durrës Customs Branch in the amount of 15.72%, which all of them in total represent 86.7% of the debt stock, in the amount of 39,631,083 thousand ALL.

The application of the performance indicator "Customs debt/customs revenue", at the GDC and customs branch level resulted that the total customs debt compared to the revenue of 2021 is 24%.

The age of the customs debt, according to the data of the General Directorate of Customs, is presented in the following table:

Table no.15 Customs debt age, by cases and value

Million ALL

| 1 year | | 2 years | | 3 years | | 4 years | | Over 5 years | |
|--------|---------|---------|-----------|---------|------------|---------|-----------|--------------|------------|
| Cases | Value | Cases | Value | Cases | Value | Cases | Value | Cases | Value |
| 686 | 657,647 | 485 | 3,081,075 | 422 | 14,376,716 | 292 | 3,649,549 | 2,803 | 23,946,599 |

Source: GDC data processed by ALSAI

Referring to these data, it is concluded that the amount of over 5 years debt is 23,946,599 thousand ALL or in the amount of 54% of the total debt stock, therefore, since more than half of the inherited debt in years is over 5 years, it shows a low performance of the measures taken, by the General Directorate of Customs and the customs branches.

The audit at the DPD has shown that the factors that have negatively affected the performance of customs debt recovery is a significant lack of debt structures in customs branches, as well as a lack of cooperation between the sectors or debt specialists in the customs branches with the state or private enforcement service companies, contracted by them, in order to follow and implement the debt recovery procedures by force.

1.2. Special Funds Revenues

According to the MFE report, the audit held by ALSAI in this institution, revenues from special funds represent social security contributions, health insurance contributions, as well as revenues for the compensation of the owners. For the year 2021, they were realized in the amount of 110,872 million ALL, or 102.6% of the revised budget, with Normative Acts planned for 108,055 million ALL or 2,817 million ALL over planning, which was realized, marking an increase even compared to the previous year of 28%.

The realized revenues from the special funds represent 22% of the total public revenues in the country.

Table no.16 Customs debt age, by cases and value

Million ALL

| No. | Item | Last Plan | Realization | Realization (%) | Differences + / - |
|-----|---------------------------|-----------|-------------|-----------------|-------------------|
| 1. | Special Funds Revenues | 108,055 | 110,872 | 103 % | + 2,817 |
| a | Social insurance | 91,271 | 94,900 | 104 | + 3,629 |
| b | Health Insurance | 15,084 | 14,541 | 96 | - 543 |
| c | Owner's compensation fund | 1,700 | 1,431 | 84 | - 269 |

Source: MFE data processed by ALSAI

The excess of revenues from special funds came as a result of the excess of social insurance revenues for 3,629 million ALL, although the nonrealization from health insurance and the fund for the compensation of owners were, respectively 543 and 269 million ALL.

1.2.1 Social Insurance

The contribution from Social Insurance revenues, in the 2021 budget law, was planned to be 85,471 million ALL and with the changes made with the NA No. 34, dated 03.12.2021, they were increased to 91,271 million ALL, and were realized in the amount of 94,900 million ALL or almost 104%, exceeding the revised plan by 3,629 million ALL.

According to the draft budget relation of the MFE for 2021, the effect of the increase in the

minimum and maximum salary in the country for this year was estimated at three milliard ALL⁶, which shows that about 83% of the increase in contribution revenues has come as a result of this action.

Contributions and other revenues in the social insurance scheme for 2021 represent 5.36% of GDP.

Contributory revenues for social insurance consist of income for mandatory insurance and revenues from supplementary insurance contributions, which are collected by the tax authorities and a very small part by the Institute of Social Insurance and result in an excess for the two institutions.

Compared to 2020, there is a significant increase in revenues for social insurance contributions in the amount of ALL 11,385 million, also a consequence of the impact of the pandemic situation.

From the audit held in ISSH, it has been found that in 2021 the number of total contributors to the mandatory social insurance scheme here increased by 42,960 persons, of which about 26% belong to the state sector (budgetary and non budgetary contributions), that are paid mostly from the state budget, the number of contributors from private entities is decreased by 31,085 persons and the self-employed number is increased significantly.

Another factor that affects contributory revenues is the continuous decrease in the number of insured persons among the self-employed in agriculture, although there is an increase in their number, especially during 2021, reaching the level of 2017.

The data above shows once again that the increase in contributions in 2021 did not come mainly from the increase in the number of contributors to the insurance scheme, but from the increase in the minimum wage from 26 thousand ALL to 30 thousand ALL.

From the audit at ISSH, it has been found that the unpaid obligations for the social insurance contribution on 31.12.2021 are in the amount of 15,866,737 thousand ALL, belonging to 103,628 subjects. During the year 2021, unpaid liabilities were increased to the amount of 1,474,616 thousand ALL, or 9% of the total, represented by the addition of 6,795 debtor entities. In the unpaid obligations of 2021, 65% belong to small business, 30% to large business and the rest to non-budgetary entities.

The audit at the GDT resulted in the total social insurance contribution collected by them was 426,348 thousand ALL, which belong to interest delays and fines, so they do not represent contributory revenues from employment but penalties of employer entities or the self-employed.

1.2.2 Health Insurance

Health insurance contributions according to the budget law were planned to be 14,084 million ALL, increased by the NA No. 34, dated 03.12.2021 in the amount of 15,084 million ALL, and realized for 14,541 million ALL, with a nonrealization of 543 million ALL, although with an increase of 809 million ALL compared to the last year.

The fact that with the NA no.34, dated 03.12.2021, health insurance contributions were increased by 1,000 million ALL compared to the budget law, as well as the fact that social insurance contributions have been significantly exceeded, show that there was a lack of accuracy in budget planning for health insurance contributions, not taking into account the significant change in the structure of contributors to the mandatory insurance scheme.

⁶ Relation on the draft law "On the 2021 budget", page 12

Referring to the audits held in GDT and ISSH, it results show that the unpaid obligations for health insurance contributions on 31.12.2021 were 1,876,778 thousand ALL, which represents 10% of the total social and health contribution obligations.

From the audit at the GDT, it results that in the total health insurance contribution collected by them, 62,922 thousand ALL consists of late interest and fines.

1.2.3 Owners Compensation Fund

Revenues from the owners' compensation fund were realized in the amount of 1,431 million ALL from 1,700 million ALL according to the budget law, or 84%, with a nonrealization of 269 million ALL.

Compared to 2020, it turns out that the collected revenue was in the amount of 270 million ALL more.

Based on the realization of this indicator in the period 2019-2020, is realized that there are planning deficiencies in the owners' compensation fund revenues since the actual value was at low levels.

The above data have also been confirmed by the audit of ALSAI carried out in the Ministry of Finance and Economy.

Findings from the audit at the General Directorate of Taxes and the General Directorate of Customs for revenues.

- From the audit held at the General Directorate of Taxes, it is found that although the fact that the revenues have been realized to the extent of 103.3%, some of the items have not been realized compared to the plan, such as Value Added Tax, National Taxes, and Road Traffic Tax.
- The balance of unpaid obligations at the end of 2021 results in the value of about 134,935 million ALL belonging to a number of 192,701 debtor entities, with an annual increase of about 12,467 million ALL from 23,850 entities, significantly more than the data of 2020, with increased liabilities of around 5.4 milliards ALL and 17,609 debtor entities.
- There have been 678 control procedures suspended, unfinished, or unstated since 2015 and following, which results not only in low performance of the control activity, losing the effect of examination and analysis of tax-paying entities, but also affecting the level of tax revenue collection.
- From the audit in the General Directorate of Customs, it was found that the final plan of customs revenues reported by GDC is not the same as the plan of customs revenues according to the consolidated fiscal indicators of the state budget, referred to NA no. 34, dated 03.12.2021, published by the MFE, while for planning purposes GDC refers to NA no. 18, dated 14.04.2021. The final plan referred to by the GDC is in the amount of 169,051 million ALL, while according to the MFE, it is in the amount of 181,015 million ALL, and therefore the analyses on the realization of customs revenues by the GDC were not carried out referring to the MFE plan.
- The GDC has generally been content only with the evidence of the customs debt reported by the customs branches, but based on the difficult situation of the debt stock, the analysis of the situation, progress over the years, the assessment of current and eventual risks, they have not undertaken control activities additional for the minimization of risks which have negatively affected the recovery of the customs debt.
- The transfer of responsibilities for the collection of duties from the General Directorate of Customs to the Customs Branches, where in most of the Customs Branches, there is only one employee responsible for the collection of duties, and without accompanying the transfer of this responsibility with the necessary human resources for following the procedures of

identification, notification, monitoring of debtors, adding to this even the increasing trend of obligations (cases and value) has led to a lack of effectiveness and results of this structure in the Customs Branches.

- On the revenue side, there was a negative effect on the total value of 45,712 million ALL, representing the debt stock at the end of 2021.

1.3 Non-tax Revenues

Non-tax revenues include the transfer of profits from the Bank of Albania, revenues from budgetary institutions, dividends, service fees, and others, which were planned for a total of 21,600 million ALL, and realized for 22,289 million ALL, or to the extent of 103 %, with 689 million ALL over planning. From the MFE data, it appears that the revenues from the dividend in the amount of 285 million ALL has not been realized, and the other items have been exceeded.

In the total non-tax revenues for 2021, the value of 2,852 million ALL was realized by local self-government units. Non-tax revenues, compared to 2020, were collected in the amount of 3,336 million ALL more, but without reaching the level of 2019.

1.4 Revenues from local government

Local government revenue consists of local tax revenue, property tax revenue, and small business profit tax revenue. According to the draft budget law, the budget law of 2021, AN no.4, dated 05.02.2021, AN no. 4, dated 03.12.2021, and the fiscal table of the consolidated budget, the planning and realization of revenues from the local government (revenues from local fees and taxes) is presented as in the following table.

Table no.17 Local Government revenues plan and realization

Million ALL

| Item | Fact 2020 | Draft Budget | Budget 2021 | NA 4 | NA 34 | Fact 2021 |
|------------------------------------|-----------|--------------|-------------|--------|--------|-----------|
| Local Government Revenues | 21,975 | 25,426 | 25,426 | 25,426 | 25,926 | 26,666 |
| <i>Local Taxes</i> | 16,468 | 19,389 | 19,389 | 19,778 | 20,278 | 20,166 |
| <i>Property Taxes</i> | 5,124 | 5,648 | 5,648 | 5,648 | 5,648 | 6,116 |
| <i>Small business profit taxes</i> | 384 | 389 | 389 | 0 | 0 | 385 |

Source: Ministry of Finance and Economy

Regarding the planning of revenues from the local government, it is found that the total values and composition of these revenues have been preserved as in the draft budget in the 2021 budget law. In the budget law, revenues from local government are planned in the amount of 25,426 million ALL, of which revenues from local taxes are planned in the amount of 19,389 million ALL, income from property tax is planned at 5,648 million ALL, and revenues from the small business profit tax are planned in the amount of ALL 389 million.

With the NA no. 4, dated 05.02.2021, the total revenue has not changed, but the Small Business Profit Tax income has been removed, surpassing this value in the increase of revenues from local taxes.

With the NA no. 34, dated 03.12.2021, revenues from the local government are increased to the value of 500 million ALL, reaching the annual planning in the amount of 25,926 million ALL. This increase in revenues has been made in the revenues from local taxes, which reached the planned value of 20,278 million ALL, while the revenue from property tax has not changed in value of 5,648 million ALL since the budget law.

Planned local tax revenue accounts for 78% of local government revenue, and small business profit tax is 22% of the total.

For the year 2021, referring to the table of consolidated fiscal indicators and the audit in MFE, the revenues from the local government have been realized in the amount of 26,666 million ALL, against 25,426 million ALL planned with the initial plan, or to the extent of 104.9%, with over-realization for the amount of 1,240 million ALL, while compared to the changed plan, the revenue from the local government was realized to the extent of 102.9%, with over realization for the value of 740 million ALL.

Local government revenues for the year 2021 represent respectively 5.6% and 5.2% of tax revenues and total revenues at the national level, as well as 1.5% of GDP.

The local government's revenues for the year 2021 are increased to the value of 4,691 million ALL, compared to the year 2020, where these revenues were realized in the amount of 21,975 million ALL.

Revenues from local taxes were realized in the amount of 20,166 million ALL, against the 20,278 million ALL planned with the NA no. 34, realized to the extent of 99.4%, with a nonrealization in the amount of 112 million ALL. Compared to the initial plan, the revenue from local taxes was realized to the extent of 104%, with an over realization in the amount of 777 million ALL.

Property tax revenues (buildings) for the year 2021 were realized in the amount of 6,116 million ALL against the 5,624 million ALL planned in the 2021 budget law, or 108.3%, over realized for the value of 468 million ALL.

Revenues from the Small business profit taxes for the year 2021 were realized for the value of 385 million ALL, against 389 million ALL planned by the budget law, or to the extent of 98.9% with the nonrealization in the amount of 4 million ALL. It should be noted that, from February 2021, with NA no.4, dated 05.02.2021, the revenue from the Small business profit taxes have been removed from the budget planning since with law no. 122/2020 "On some changes in law no. 9632, dated 30.10.2006, "On the local tax system," amended, the applicable tax rate on the taxable profit was removed. The above-realized value of small business tax revenues of 385 million ALL belongs to the collection of arrears.

Referring to the database of the Directorate of Local Finances, local government revenues from local taxes and fees for 2021 are realized for 26,647 million ALL, compared to 26,666 million ALL reported by the Directorate of Treasury in the Table of Consolidated Fiscal Indicators, with a difference in the amount of 19 million ALL. This difference comes as a result of the receipts of account 7035033, "Local tax on the impact on infrastructure from new constructions and legalization" of the Ministry of Infrastructure and Energy, which are collected by this ministry and then transferred to local government units.

Despite the fact that in the "Report on the implementation of the annual budget, the macroeconomic and fiscal situation," the Directorate of Local Finances has reported that the revenue from local taxes and fees is in the amount of 26,666 million ALL, this directorate does not have information about which local government units have benefited from revenues of the transfer of local tax from MIE.

Out of 50 audits held by ALSAI during 2021 in the local self-government units related to the planning and administration of revenues, in addition to the work done by them, many irregularities and violations of the legal provisions in force have been found.

The audits resulted in economic damage to the local revenues in the total amount of 36,569 thousand, ALL as a result of the detected violations of the tax legislation (rent, local taxes, infrastructure impact tax, etc.)

In addition, problems and irregularities have been found that have had a negative effect on municipal budget revenues in the amount of 770,802 thousand ALL, of which: 183,895 thousand ALL from non-implementation of the law on local taxes and fees as in Kukës Municipality 6,430

thousand ALL, Lushnje 24,807 thousand ALL, Kavajë 3,295 thousand ALL, Shkodër in the amount of 29,776 thousand ALL, etc.; 37,279 thousand ALL from misadministration of state property given for rent and concessions; 259,882 thousand ALL from non-collection of fines imposed by the Territory Protection Inspectorate and 289,746 thousand ALL from violation of tax legislation (not providing fuel with authorization, infrastructure impact tax, etc.).

During the audit of local tariffs for entities that trade in hydrocarbons and their derivatives, it was found that there are deficiencies in completing the data of these entities in general and debtors in particular, such as, for example, in the creation of a special register for these type of entities, in the identification of entities that exercise this type of activity and in the collection of specific obligations for these business categories.

In relation to the equipment with the relevant trading permits and their payments, in some cases, it has been found that the fee was applied incorrectly, while in other cases, it was not applied, which implies missing revenues for local units such as Fier Municipality in the value of 44,200 thousand ALL, Mat Municipality in the value of 18,850 thousand ALL, Elbasan Municipality in the value of 20,600 thousand ALL, Pogradec Municipality in the value of 9,600 thousand ALL, Lushnje Municipality in the value of 27,500 thousand ALL, etc.

The planning and realization of the revenues have been approved with the decision of the Municipal Council, and out of the 7,149,124 thousand ALL planned revenue of 2021, 4,568,742 thousand ALL have been realized or a level of realization in the amount of 64%, with a non-realization of 2,580,382 thousand ALL, a deviation that reflects problems related to the collection of taxes and local fees, missing revenues in the budgets of these municipalities and an obstacle to the realization of planned projects in the service of the community.

It is found that only six municipalities have achieved and exceeded the revenue plan (Kukës, Tropoja, Has, Tepelën, Sarandë, and Mirdita), whose revenue plan is between 23,000 thousand and 107,000 thousand ALL, except the municipality of Sarandë with a revenue plan of 430,383 thousand ALL.

From the audited municipalities, the ones which have the highest deficit in revenues are the municipalities of Elbasan with 437,787 thousand ALL, Vlora with 341,125 thousand, Vorë with 324,013 thousand ALL, Korça with 256,906 thousand ALL,

The stock of tax debt for the audited municipalities, which closed the fiscal year 2021, is in the amount of 10,478,946 thousand ALL, while at the end of 2020, it was in the amount of 8,804,527 thousand ALL, a value increase of 1,674,440 thousand ALL, which reflects the high level of missing revenues in the budgets of these units, translated into less investment for the community. The highest level of debt of 3,747,368 thousand ALL, or over 35% of it, is occupied by three municipalities: Shkodër Municipality in the amount of 1,369,791 thousand ALL (or 13% of the total debt), followed by the Municipality of Mallakastër with the value of 1,236,241 thousand ALL, Lushnjë Municipality with the value of 1,141,336 thousand ALL, etc.

In all the audited subjects, it identified the fact that the municipal administration structures have not taken all the necessary legal steps to collect the obligations from the debtor subjects, such as: blocking of bank accounts, placement of insurance liens in the Regional Directorates of Transport (for tools), or ASHK (former ZVRPP), non-application of fines for non-payment on time, and in none of the audited municipalities, it is not evident that steps have been taken for "Criminal charges" against taxpayers, despite the fact that apart a significant number of subjects are debtors in years and with activity, who are only charged with obligations without being able to collect them in years.

The audit showed that the debt from families is in the amount of 4,949,126 thousand ALL, or 47% of the total level of debt. The highest level of debt from families of 627,717 thousand ALL or 12% is occupied by the Municipality of Elbasan, followed by the Municipality of Shkodër with

a value of 462,351 thousand ALL, the Municipality of Vlora with a value of 462,351 thousand ALL, the Municipality of Korçë with the value of 245,544 thousand ALL, etc.

It should be highlighted that, in some municipalities, the lack of construction of a computerized and quality tax system remains a problem, to ensure the correct recording and administration of revenues, the equal treatment of subjects subject to local taxes and fees, thus increasing the level of local government revenue collection.

1.5 Audit results for on state budget revenues

From the performed audits it resulted in missing revenues in the state budget, totaling 46,327,209 thousand ALL, of which 45,383,203 thousand ALL was in violation of the tax legislation, 846,142 thousand ALL in customs, 89,591 thousand ALL in local taxes and fees, 7,273 thousand ALL as a result of the mismanagement of state property, and 1,000 thousand ALL in other detected irregularities.

In addition to the above, negative effects for the amount of 1,525,319 thousand ALL have been found, of which 43% were violations in the implementation of the customs code, 36% to local taxes and fees, and 12% to the implementation of tax legislation, etc.

In other audits, which are not referred to above, it has resulted:

-From the audit of the **Tax Directorate Tirana**, there were detected missing revenues in the state budget totaling 44,315,355 thousand ALL, as a result of:

- Differences in the turnover of declared income in the fiscal cash registers with the income declared in the declarations of the VAT and Income Tax for small businesses without VAT, for small businesses with VAT, for large businesses; differences in the turnover declared in the VAT payment declaration form (FDP), and the Income Tax declaration, as well as the difference between the VAT, declared in taxes and the VAT declared in customs, with the consequences of unjustified differences, in the assessment of the missing tax revenues in the items of Income Tax, Simplified Income Tax, and VAT in the amount of 44,314,698 thousand ALL, for which TD Tirana has been asked to carry out the relevant assessments and reassessments.
- As a result of the audit of the control report and VAT refund, there were found irregularities in the actions of control inspectors, such as lack of penalty application, errors in verification and calculation of expenses recognized by the subject in the statement of income, and expenditure; errors in the calculation of the cost of goods sold, incorrect calculation of depreciation, with the consequence of avoiding the payment of tax obligations in the amount of 656 thousand ALL.
68 VAT refund practices were evaded by the office control procedure in violation of the deadlines set by the tax legislation, thus removing the taxpayer's right to contest the results of the control within five calendar days. Also, the control notices accompanied by the control programs for VAT refunds do not specify the date, or time, when the tax control starts and ends, as well as its necessary duration, not complying with the legal requirements according to letter f), point 2, Article 81 of Law No. 9920, dated 19.05.2008 "*On tax procedures in the Republic of Albania*," amended.
- As a result of the audit, there were detected deficiencies in the administration and monitoring of the financial situations of taxpayers, as 95 entities had filled out the tax income declaration columns with values lower than the operating income in a total of 226,726 thousand ALL and 76 entities had filled in the tax expense declaration columns with higher values in a total of 67,967 thousand ALL higher than the exercise expenses in a un properly argued and unverified manner by the tax administration. Also, 1,806 taxpayers with an average of more than five employees during a tax period were found to be without

VAT tax liability, for whom, despite the declared turnover, the tax administration did not undertake the relevant verifications.

- As a result of the audit of the requests made by the subjects regarding the Debt Agreements of payment in installments of tax obligations, it resulted that the subjects had not presented arguments on the ability to pay in the future; in 91 cases, there were taxpayers whom after the immediate payment (20% of the value of the obligation for which the agreement is concluded), result in 0 installments paid after the conclusion of the MA, thus not implementing the terms of the deed-agreements for payment in installments and not collecting the value of the obligations for which they are bound. In addition to the above, there are significant delays between the date of cancellation of the agreement and the time when the last installment was paid, contrary to the requirements of Article 78 of Law No. 9920, dated 19.05.2008 *"On tax procedures in the Republic of Albania,"* amended, as well as by point 5.1 and 5.2 of the Agreements concluded between taxpayers and the DRT.

- From the audit of **Tax Directorate Korçë**, there were detected missing revenues in the state budget totaling 220,863.5 thousand ALL, as a result of:

- From the audit of the data of the IT sector on the discrepancies in the declaration of the financial situation with the income in the financial statements, it was found that there are taxpayers (active, who have requested deregistration and passive) who have made the declaration of the 2019 financial statements, but who have not paid income tax in the amount of 34,475 thousand ALL, causing missing revenues in the state budget.
- From the comparison of turnover according to cash and income in the VAT declaration, for small businesses with VAT and for medium-sized businesses, there have been subjects with a cash turnover higher than the VAT declaration, resulting in missing revenue in the state budget to the extent of 7,243 thousand ALL.
- There has been large business, and small businesses subject to VAT declaration which has declared VAT in taxes in a value smaller than the value of VAT declared at customs for imported goods, unjustified differences and not reassessed by the Korçë tax administration, resulting in missing revenues in the state budget in the amount of 2,423 thousand ALL.
- From the audit of the control and VAT refund report, there were found irregularities in the actions of the control inspectors, such as errors in the calculation of the cost of goods sold, non-application of the "Calculation of the VAT deduction coefficient" for entities with mixed activity, not performing the appropriate actions regarding the recognition of amortization expenses in the statement of performance, etc., resulting in avoiding the payment of tax obligations in the total amount of 174,316 thousand ALL.
- As a result of the analysis of the final reports of the tax control for the production process of the product "Packaging" of different types, it was found that the subjects have not made full payment for the quantity of plastic packaging goods produced, resulting in the obligation penalty of tax in a total of 2,406 thousand ALL, based on article 5 "Tax agents" of law no. 178/2013 " *On behalf of some additions to law no. 9975 dated 28.07.2008 "On national taxes."*
- It resulted that for the period January-July 2021, there were 8,122 cases of subjects with debts in the amount of 2,489,601 thousand, ALL for which more than a year has passed since the payment of the tax obligations has been recorded.

-From the audit of the **Customs Directorate Tirana**, there were detected missing revenues in the state budget totaling 505,215.5 thousand ALL, as a result of:

- As a result of the audit, it has been detected that the customs assessment methods related to imported goods have not been followed step by step according to the requirements of the

regulatory framework in force; the transaction was accepted when the values of the items were under reference; these have been interferences in the calculation of customs duties by not accepting the invoice prices presented by the entities, but the measure of interference has not been the same for different entities importing the same article from the same origin, or even at the level of the data values available; etc., which have consequences for the state budget revenues, for which it is recommended compensation for non-calculation and non-collection of customs duties in the amount of 376,642 thousand ALL;

- In some of the customs warehouses, the legal obligation to submit inventories of the accounting status of imported items was not respected, and the customs processing staff did not keep a written record of the violation of the custom regarding this problem for nine economic operators. For the active inward processing regime (garment industry), the deadline for providing the destination according to the authorization was exceeded for 25 subjects; 27 subjects with quantities of goods exported in excess of the amounts authorized in the RPA, etc., as a result of the assessment not in accordance with the legal and by-laws in force in the total value of 116,831 thousand ALL, which constitutes missing revenues of the state budget.

- From the audit of the documentation for the customs procedures followed by the entities that operate according to law no. 61 dated 24.05.2012 "*On Excise Duty in the Republic of Albania*," non-calibrated deposits and silos were found; non-payment of excise duties for goods and energy products imported not in accordance with the law on excise duties, as well as non-collection of customs duties and administrative sanctions of excise in the amount of 4,891 thousand ALL which constitutes missing revenues in the state budget.

- 74 decisions were found with procedural and material violations, such as misclassification of the committed violation, inappropriate sanction of customs revaluation, annulment of previous decisions by the customs branch, and lack of a classification of the violation, for which the estimated financial effect is 6,852 thousand ALL.

-From the audit of the **Customs Directorate Durrës**, there were detected missing revenues in the state budget totaling 340,927 thousand ALL for the period from 01.01.2021 to 31.12.2021, as a result of:

- For some entities, the values of imported items are declared and treated by transaction in the absence of documentation; in many cases, the same subjects for the same imported item were reassessed, and the item was not reassessed; price statements of finished products below the price of raw materials; The handling of the used goods in a transaction below the price of the raw material a transaction was done at the moment of release into free circulation, not in accordance with the requirements of the customs legislation. From the examination of the documentation related to the customs practices IMP 4 of the articles declared in the relevant tariff codes of the NM of the goods (register of codes of goods imported), it was found that the customs agencies have incorrectly classified the goods in the tariff code (in boxes 31 and 33. of the DAV), with the consequence: avoidance of customs duties; avoidance of packaging tax (TAM), as well as avoidance of excise duty in the total amount of 182,290 thousand ALL.

- In the documentation of the customs procedures of the entities operating in the free zone of Porto Romano, there were detected actions contrary to the practice manual of the General Director of Customs after they authorized the recognition of expected losses in simple procedures of the transfer of goods outside the norms of determined according to the legislation in force. Also, from the classification of customs duties for the quantities of fuel goods that have resulted in excess after legal measurements by authorized companies or after the measurements expressed in the relevant report at the time of measurement, before the start of unloading, or after entering the relevant warehouses, there have resulted in unpaid custom obligations in the amount of 88,600 thousand ALL.

- In the customs procedures of entities that operate according to law no. 61 dated 24.05.2012

"Regarding Excises in RSH," there were actions found not in accordance with the legal and by-laws in force, resulting in the non-collection of administrative sanctions in the amount of ALL 762 thousand, which are considered missing revenues in the State Budget.

- As a result of the audit of the procedures on administrative decisions for violations in the customs field, it resulted that the Customs Authority has issued administrative decisions not in accordance with the specific requirements of the Customs Code and the Code of Administrative Procedures for 119 cases, resulting in missing revenues for the State Budget as a result of these decisions in the total value of 11,994 thousand ALL.
- In the customs practices of the operators who have operated under customs supervision in the transit regime (T1), it turned out that the specified time limit for arrival at the destination customs was not respected. The customs processing personnel of the documentary/physical control did not keep a record for reporting on such issues to apply sanctions for the misdemeanor according to the provisions of Article 256.1/b of the Customs Code in 1362 cases corresponding to the value of 27,240.5 thousand ALL missing revenues for the state budget.
- The deadline for closing the active inward processing regime (garment industry) and temporary permit regime according to the regulations of the regulatory framework in force has not been respected; deficiencies in some elements of document 8 of closing the regime related to non-application of penalty; not imposing sanctions on goods that have been re-exported with the preferential origin; performing the import of primary products under the RPA regime for codes that are not part of the operator's authorization, or for which the addition to the authorization was received at a later time than the time of performing the import; the difference between the quantity imported under the customs regime and those given to the destination do not fulfill the conditions set in the authorization, all of this with a financial effect in missing revenues for the state budget in the total amount of 10,630 thousand ALL.
- There have been identified subjects with quantities of imported goods that have not been given a destination yet, over the deadline, there have been no extensions for a new export deadline, and no transfer procedures have been carried out to other regimes, as a result, they have not fulfilled the conditions set in the authorization, committing a misdemeanor provided by Article 252/c of Law no. 102/2014 "*Customs Code of the Republic of Albania*," amended, where for these amounts, the financial effect with missing revenues in the State Budget results in a total value of 19,409 thousand ALL.
- The Customs Branch is not involved in the revenue planning process, but the plan is forwarded by the General Directorate of Customs on a monthly basis and follows up on its realization.
- It turns out that the balance of customs debt on 31.12.2021 corresponds to 947 cases, 813 debtor entities in the amount of 7,187,459 thousand ALL, resulting in an increase for this year by 15 debtor entities, or 1.9%, and an increase in value by 84,578 thousand ALL. In addition, the debt office has registered interest arrears of 1,047.5 thousand, ALL less than the calculation made for the period 2019-2021.

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-From the audit conducted by the **Ministry of Infrastructure and Energy (MIE)**, the non-commissioning of HPPs below 2 MW according to the contracts has resulted in a negative impact on the state budget revenues.

Pursuant to Decision No. 822, dated 07.10.2015, "*For the approval of the rules and procedures for the construction of new electricity production capacities, which are not the subject of a*

concession," 87 contracts were concluded for HPPs under two MW with an annual energy production of 453,248,902 KW/h, of which 57 contracts related to the annual energy production of 317,350,850 KW/h have not entered production.

Table no. 18 Contracts for HPPs up to 2 MW according to the year of commissioning

| Year | Contracts | Annual energy production KW/h |
|-------|-----------|-------------------------------|
| 2017 | 8 | 41,685,399 |
| 2018 | 31 | 168,944,698 |
| 2019 | 6 | 43,165,607 |
| 2020 | 5 | 27,141,148 |
| 2021 | 7 | 36,413,998 |
| Total | 57 | 317,350,850 |

Source: MFE data processed by ALSAI

So, it was found as a result of the conducted audit that a part of the HPPs entered into production much later than planned in the contract, in total 30 HPPs with an annual energy production of 135,898,052 KW/h or 30% of the total contracts, whose non-commissioning according to the signed contracts, has had a negative impact on the state budget revenues. Specifically:

- In 2019, 7 HPPs entered production with a total annual energy production of 20,252,238 KW/h, of these 5 HPPs with a production of 18,077,627 KW/h signed a contract in 2017;
- In 2020, 14 HECs entered production with a total annual energy production of 62,396,687 KW/h, of which 9 HECs with a production of 41,602,199 KW/h signed a contract in 2017;
- In 2021, 9 HPPs entered production with a total annual energy production of 53,249,127 KW/h, of these, 7 HECs with a production of 34,489,381 KW/h signed a contract in 2017.

For the monitoring files of HPPs selected for audit, The National Agency of Natural Resources found penalties calculated and not held by MIE in the amount of 3,525 thousand ALL.

The above results show that MIE has not taken the measures to regulate the findings from the monitoring of the implementation of the contracts by terminating the contracts or imposing sanctions according to the provisions in the respective contracts.

- From the audit in the **MFE-Apparatus**, it has been found that in the generated income of 2021, the account 778/100 "Income-corrections from the previous year," in the amount of 133,981.6 thousand ALL, which is actually a "loan" given by the Ministry of Finance to the National Fund in previous years (IPA2012, IPA2013), a value which should have been returned within the year when the amount was disbursed but was returned in 2021, thus violating the Guideline No. 10, dated 09.03.2015 "On determining the procedures for management through the national co-financing fund of the state budget for IPA projects," point III. 4 and Order No. 74, dated 23.06.2016 of the Minister of Finance. As a result, the period's revenues were overestimated, given that the collection transaction from the National Fund is the return of a loan amount that is treated as repayment from last year's debtors. Budgetary funds have been used to finance in the short term, where the state has functioned as a lender for paying off bills of foreign-financed projects, which should have been paid off by the foreign donor.

-The audit conducted by the **Bank of Albania** shows that the realization of income for the 8th month of 2021 stands at 72% of the plan for this period.

As a result of the audit conducted on the activity of the Bank of Albania as the fiscal agent of the government within the agreement for the provision of financial services, it was found that, in the correspondence between BoA and the Ministry of Finance and Economy (MFE) regarding

the total income reported by the banks and the total expenses initiated by the MFE, there are cases of non-compliance of these items, arguing the differences in total expenses with detailed items, which have been adjusted in the following days. In addition, the process of confirming total income and expenses lasts until the second following month since the MFE documents arrive at BoA almost two weeks after the date indicated on the letter, although from BoA the confirmation letter is within three days as defined in the agreement. Within the confirmation process as defined in the agreement between the parties, the confirmation in the second following month does not serve the objective and, at the same time, is not in accordance with the foreseen periodicity.

- From the audit carried out at the **Supervisory Authority of Gambling of Albania**, it was found that in two cases, the fine was not applied in the values determined by the relevant law, causing economic damage to the state budget in the amount of 100 thousand ALL.

- From the audits carried out by the National Agency of Natural Resources for hydrocarbon costs, it turns out that significant amounts of expenses are included in violation of the terms and conditions of the contract. Including these expenses unfairly affects the reduction of the R⁷ factor and, consequently, the non-calculation and non-correct payment of the profit tax on account of the budget.

- The audit has resulted in irregularities related to the inconsistency of the name of the mineral established in the act of approval of mining permits with the name of the mineral in the field where the mining activity took place. In the mining permit, the components of the stones are determined, while in the soil, decorative limestone grounds are determined. From the examination of the files of the mining entities, it turns out that the way of paying the mining rent in the same places for different entities is problematic, where it is the same mineral but the way of using the royalty is different, affecting the application of the percentage of the mineral royalty for each category of the mineral. As a result, it has negatively affected the income of the state budget.

- The audit of the **Tirana Regional Environmental Agency** has resulted in missing income in the amount of 3,300 thousand ALL, ascertained in 11 inspection practices, for which no administrative measure was taken with a fine for the violations committed in the environmental conditions and permits.

- In the performance audit "**Management of water resources**," carried out in the subjects of the Water Resources Management Agency, the Ministry of Agriculture and Rural Development, and the National Environment Agency, for the period 2018-2021, it was found that Water Resources Management Agency has not achieved to collect water use fee obligations and administrative expenses for equipment with a water source use permit. The non-collection of obligations has resulted in missing revenues for the state budget in the amount of 188,282 thousand ALL, where about 93% of the total refers to inherited obligations before 2018.

In addition to the above obligations, the audit resulted in a lack of income in the amount of 89,591 thousand ALL as a consequence of the use of water resources without the relevant permits.

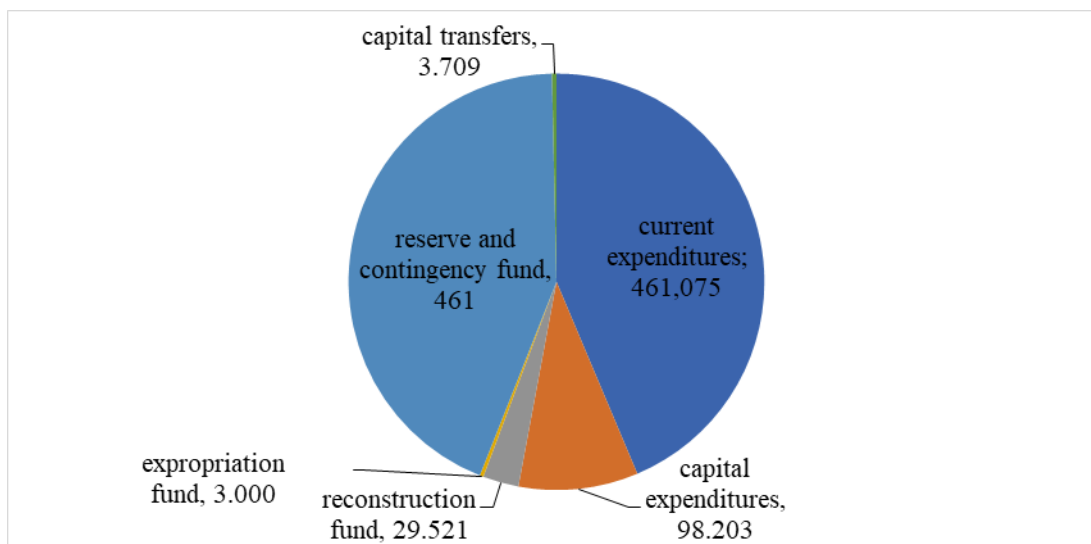
⁷ According to Article 9, "Albpetrol's share and recovery of costs," of the hydrocarbon agreement, the R factor is calculated every quarter as the ratio of the income accumulated in years from the sale of produced oil to the expenses accumulated in years that have been incurred for the production of this oil. Likewise, in article 10.2, "Recovery of Costs. Sunk Costs" of the License Agreement

2. EXPENDITURES PLAN AND EXECUTION

According to the consolidated fiscal indicators, it results that the total expenses in the 2021 budget law are planned for 628,269 million ALL, without changing the total with the subsequent NA, and realized for 595,968 million ALL or 94.8%, with a non-realization of 32,301 million ALL.

The realization of 2021 was 59,461 million ALL more than in 2020, or 11% more.

Chart no. 8 Actual structure of total expenses in 2021



Source: MFE data processed by ALSAI

From the audit in MFE related to the drafting of the additional budget requests of the institutions during the budget planning phase, it is found that the requests are not well argued, there is no connection between their objectives and purpose with the concrete products of the projects and programs, a detailed analysis of the priorities in the conditions of limited budget opportunities it is not done, as well as a documented evidence on the analysis of additional budget requests made by the relevant structures of the MFE, their listing according to the most urgent priorities and the recommendations forwarded by them to the relevant structure in the Prime Ministry for the coordination of strategies, as well as correspondence with this structure.

Also, referring to the procedure of preparing budget requests in the system, it was found that even though all units of the Central Government should prepare budget requests for PBA through the AFMIS system, still the budget institutions of group 63 "Institutions of the Justice System" and the group 87 "Other government institutions" have not been able to carry out this procedure due to the form of their organization, for the reason that the system is designed to support the work of a budget group with one authorizing and implementing officer per group. The budget requirements of these institutions are manually loaded into the system only in the third phase of the PBA by the relevant structure in the General Budget Directorate.

The budget plan approved by Normative Act no. 34, 03.12.2021 compared to that laid down in SIFQ according to fiscal indicators, there are differences in almost all expenditure items, with a net value of ALL 13,999 million; there is a high number of reallocations of 20 533 records for 2 560 budget IDs; numerous revisions of budget funds carried out throughout the year, resulting in about 2,517 revised projects, with a net change in available funds of 65.1 milliards ALL, as well as 348 records of reallocations with earlier effective accounting dates (retrospective).

Also, according to the budget revision data, it has been established that during 2021 377 revisions were made after November 15, 2021, in contrast with Article 48 of the LOB.

It should be noted that the MFE and the Bank of Albania need to revise the cooperation agreement of 2015 regarding the confirmation of the state of the Unified Treasury Account "Government Deposit", on total income and total expenses to group them in detail at least in 7 main groups such as Tax revenue, Non-tax revenue, General expenditures, Interest expenditures, Internal financing through issuance, External financing, Instruments. In this way, the degree of accuracy and analysis according to the analytical items of the fiscal indicators would increase.

In the MFE, a loss from the exchange rate has been found, which is due to the predetermination of the exercise of the SWAP instrument, without identifying the real need for conversion for the corresponding payments of the month in Euro, by performing unnecessary conversion of funds, since on the maturity date there was not enough liquidity in ALL to complete the account in Euro according to the order of DPTH itself.

There is a lack of a careful analysis of the benefits of using SWAP and Outright financial instruments, compared to their costs, as well as a lack of a methodology for managing cash flows and foreign exchange positions with effective instruments, including a lack detailing the price applied at maturity of the SWAP contract.

According to the 2021 Budget Implementation Report of the MFE, general public expenditures have reached the value of 595,969 million ALL, out of 628,269 million ALL planned according to Normative Act No. 34 dated 03.12.2021 with a realization rate of 94.9% of the annual plan. We highlight that compared to the 2021 budget law, the planned expenses were 592,801 million ALL, and during the year with the changes made, they increased by 35,648 million ALL. Compared to 2020, expenses are higher by 595 million ALL. According to their economic nature, expenses are structured into current and capital expenditures.

2.1 Current expenditures

According to the fiscal indicators of the consolidated budget and the audit in the MFE, current expenditures for 2021 in the initial budget were in the amount of 467,769 million ALL, and with NA No. 34, dated 03.12.2021, the amended final plan reached a value of 473,047 million ALL.

It is found that the current expenditures for the year 2021 have been realized for 461,075 million ALL or 97.5% of the amended annual plan, with a non-realization of 11,972 million ALL, more sensitive in the local budget, interest expenditures, operating expenditures, etc.

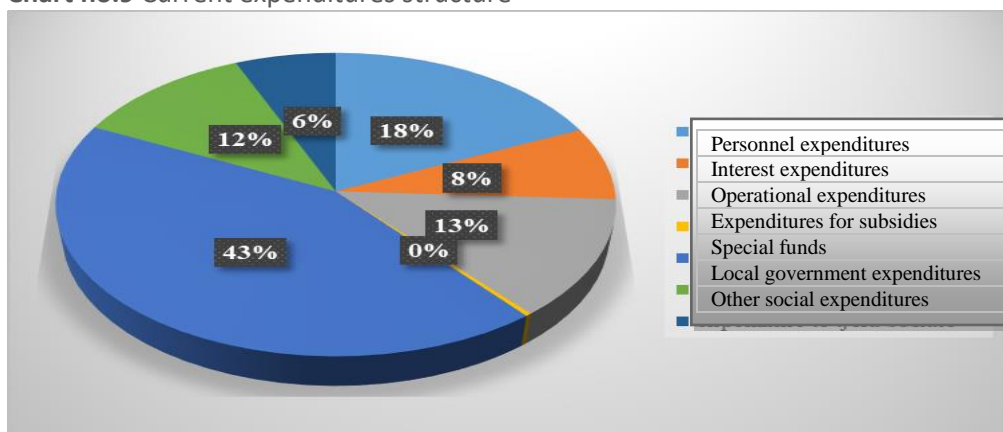
Compared to the same period of the previous year, the current expenditures are higher by about 39,700 million ALL more, or 9.4% more.

Current expenditures represent 77.4% of the total expenses of 2021 and are at the level of about 26% of GDP, resulting in almost the same level as in 2020.

Table no.19 Current expenditures structure

Million ALL Source: MFE data processed by ALSAI

| Nr. | Naming | Initial plan | Changed plan | Realization | % with the changed plan | Differences with the changed plan |
|-------|------------------------|--------------|--------------|-------------|-------------------------|-----------------------------------|
| 1 | Personnel expenses | 91,834 | 89,913 | 83,268 | 92.6 % | - 6,645 |
| 2 | Interest expense | 43,800 | 40,799 | 35,822 | 87.8 % | - 4,977 |
| 3 | Operating expenses | 49,888 | 55,794 | 59,365 | 106.4 % | 3,571 |
| 4 | Expenses for subsidies | 1,550 | 1,600 | 1,422 | 88.9 % | -178 |
| 5 | Special funds | 195,171 | 198,001 | 199,457 | 100.7 % | 1,456 |
| 6 | For the local budget | 56,826 | 57,940 | 52,593 | 90.8% | - 5,347 |
| 7 | Other social spending | 28,700 | 29,000 | 29,149 | 100.5 % | 149 |
| Total | | 467,769 | 473,047 | 461,075 | 97.5 % | -11,972 |

Chart no.9 Current expenditures structure

Source: MFE data processed by ALSAI

a) *Personnel expenditures* for the year 2021 represented 18.1% of the total current expenditures and were realized in the amount of 83,268 million ALL, 98.3% of the amended annual plan.

Compared to 2020, personnel expenditures have increased by 8.3% or about 6,373 million ALL more.

Planned expenditures for personnel consist of Wages, Social Insurance Contribution, Special Wages Fund, New Wages Policy, and Higher Education from own revenues.

Table no.20 Realization of personnel expenses in 2021

| Million ALL | | | | | | |
|-------------|------------------------------------|-------------|----------------------|-------------|-------|------------------------------|
| No. | Item | Annual Plan | Revised plan with NA | Realization | % | Differences fact-realization |
| I. | Personnel expenditures | 91,834 | 89,913 | 83,268 | 92.6 | -6,645 |
| a | Wages | 71,085 | 69,932 | 71,179 | 101.8 | 1,247 |
| b | Social Insurance Contribution | 11,699 | 11,531 | 11,402 | 98.9 | - 129 |
| c | Special Wages Fund | 250 | 250 | | 0 | - 250 |
| d | New Wages Policy | 8,000 | 7,500 | | 0 | - 7,500 |
| e | Higher Education from own revenues | 800 | 700 | 686 | 98 | - 14 |

Source: MFE data processed by ALSAI

From the table above, it can be concluded that although the planned expenditures for the special wages fund and new wages policies significantly decreased from 8,250 million ALL to 7,750 million ALL, there are no funds spent for these two items.

Compared to the amended final plan, expenditures for wages and social insurance contributions have been realized by 101.8% and 98.9%, respectively.

Expenditures for higher education from their revenues have been realized for 686 million ALL from the planned 700 million ALL, or to the extent of 98%.

b) *Interest expenditures* for 2021 have reached the value of 35,822 million ALL, 87.8% of the amended annual plan, representing 7.8% of current expenditures.

Expenditures for internal interests were realized at 23,470 million ALL out of 23,600 million ALL, or 99%, and expenditures for foreign interests were realized at 12,352 million out of 12,700 million ALL, or 97%, while no expenditures were realized for the contingency plan in the value of 4,500 million ALL, significantly influencing the unrealization of these groups of expenses.

Compared to 2020, this item was 4.2% higher, or about 1,400 million ALL more.

c) *Operating & maintenance expenditures* for the year 2021 are realized in the amount of 59,365 million ALL or 106.4% of the annual plan with changes. Compared to the same period in 2020, this item was 21.4% higher, or 10,459 million ALL more.

d) *Expenditures for subsidies*, at the end of 2021, reached a level of 1,422 million ALL, with a realization of 88.9% of the final annual plan. Compared to 2020, the expenditures for subsidies are 3.8% lower, or 56 million ALL less.

d) *Expenditures for special funds* for the year 2021 totaled 199,457 million ALL, up from 198,001 million ALL planned or realized, representing 100.7% of the final annual plan with changes. It should be noted that expenditures for special funds account for the largest share of current expenditures at 43.3%. Compared to 2020, expenditures for special funds have increased by 20,093 million ALL or 11.2% more. Referring to the component items of expenses for special funds, it is established that:

- Expenditures for social insurance were realized in the amount of 148,030 million ALL, or the amount of 99.2% of the annual plan with changes, distribution of reserves;
- Expenditures for health insurance were realized in the amount of 49,130 million ALL, or 97.7% of the annual plan with final changes;
- Expenditures for the owners' compensation were realized in the amount of 2.2297 million ALL, resulting in 85.1% of the amended annual plan distribution of reserves.

e) *Other social expenditures* (for unemployment, economic assistance, and disability payments, compensation for former political persecuted, and birth bonuses) for 2021 were realized in the amount of 29,149 million ALL, compared to the final plan of 29,000 million ALL, or 101%. Compared to last year, other social expenditures are up by 446 million ALL.

In other social expenditures, expenditures for economic assistance occupy the most significant part of 82%, and there is a non-realization of about 1,019 million ALL.

We emphasize that the indicators taken into consideration in the above analysis are in reference to Normative Act no. 34, dated 03.12.2021, in the final budget numbers. However, the MFE refers to the plan with changes in the distribution of reserves after the approval and entry into force of the above normative act.

2.1.1 Expenditures for special funds

According to the fiscal indicators of the consolidated budget, expenditures for special funds consist of expenditures for social insurance, new pension policies, for health insurance, as well as expenditures for compensation of owners.

According to the MFE Report, expenditures for special funds have been realized at the amount of 199,457 million ALL from 198,001 million ALL, or 101% with 1,456 million ALL more, according to the original budget law. Referring to the budget plan with distribution of reserves in the amount of 202,132 million ALL, the expenditures for special funds have been realized 99%, or with a non-realization of 2,675 million ALL.

Expenditures for special funds account for 33.5% of the total expenditures made in 2021.

Table no. 21 Realization of expenditures for special funds according to the structure

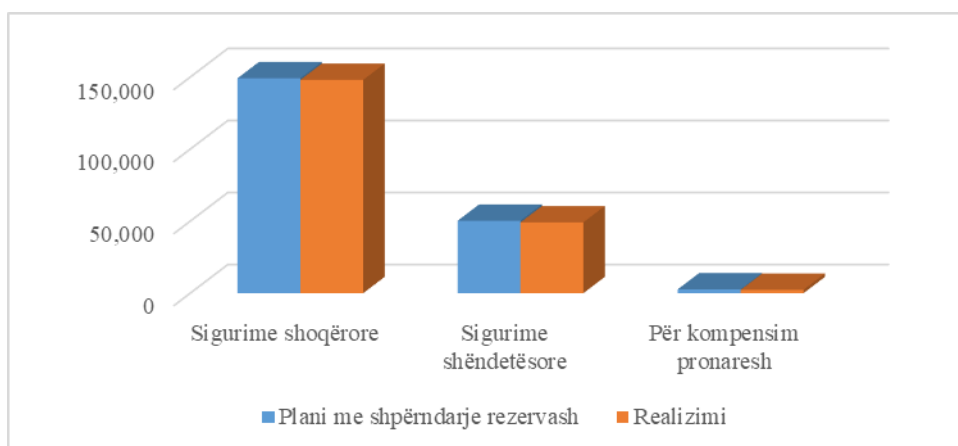
In million ALL

| No. | Name | December 2021 plan | Reserve distribution plan | Realization | Realization (in %) | The difference + and - |
|-----|--------------------------------|--------------------|---------------------------|-------------|--------------------|------------------------|
| 1 | Expenditures for special funds | 198,001 | 202,132 | 199,457 | 99 % | - 2,675 |
| a | Social insurance | 146,765 | 149,165 | 148,030 | 99 % | - 1,135 |
| b | New pension policies | 2,400 | 0 | 0 | 0 | - 2,400 |
| c | Health insurance | 46,136 | 50,267 | 49,130 | 98 % | - 1,137 |
| d | For compensation of owners | 2,700 | 2,700 | 2,297 | 85 % | - 403 |

Source: MFE data, processed by ALSAI

It turns out that the expenditures for new planned pension policies in the amount of ALL 2,400 million have not been realized; expenses for social insurance and health insurance were not realized in almost the same amount of 1,135 million ALL; as well as expenditures for the compensation of the owners in the amount of 403 million ALL.

Chart no. 10 The realization of expenditures for special funds according to the structure



Source: MFE data, processed by ALSAI

i. Expenditures for social insurance. According to the initial budget law, expenditures for social insurance have been planned at 144,665 million ALL and 149,165 million ALL with NA No. 34, dated on 03.12.2021, of which 141,633 million ALL belong to mandatory insurance, compensatory programs and special treatments and 7,532 million ALL to supplementary insurance.

Social security expenditures and their structure underwent two changes with the NA, after the initial budget law. Thus, in NA no. 18, dated on 14.04.2021, transfers from the budget for the indexation of pensions were reduced with the value of 800 million ALL, due to the increase of the same amount of contributions, while with NA no. 34, dated on 03.12.2021 expenditures have increased by 4,500 million ALL, as a result of the increase in contributions and inclusion in expenditures as a transfer from the budget for the bonus of pensioners in the amount of 3,500 million ALL.

Table no. 22 Planning and realization of expenses according to SII programs

In million ALL

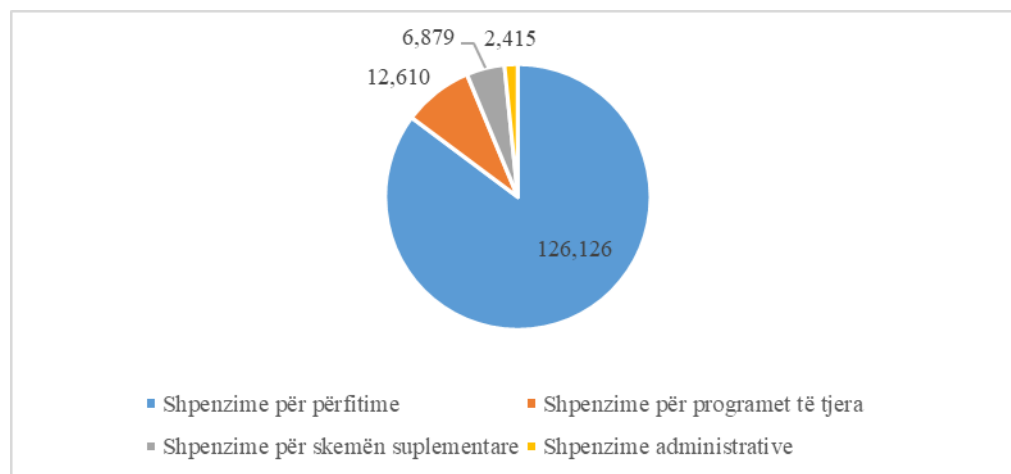
| No. | Name | The amended plan according to NA no. 34 | Realization | The difference |
|-----|---------------------------------------|---|-------------|----------------|
| I | Total expenditure on social insurance | 149,165 | 148,030 | - 1,135 |
| 1 | Expenditures for benefits | 126,048 | 126,126 | 78 |

| | | | | |
|---|---|--------|--------|-------|
| 2 | Expenditures for other programs | 13,025 | 12,610 | - 415 |
| 3 | Expenditures for the supplementary scheme | 7,532 | 6,879 | - 653 |
| 4 | Administrative expenditures | 2,560 | 2,415 | - 145 |

Source: SII data, processed by ALSAI

According to the fiscal indicators of the consolidated budget and from the audit at the Social Insurance Institute (SII), it results that the total expenditures were realized in the amount of 148,030 million ALL out of 149,165 million ALL, or to the extent of 99.2% compared to the amended budget plan, with a total non-realization of 1,135 thousand ALL. The most significant non-realization is in the expenditures for the supplementary scheme (almost -10%), in the expenditures for other programs and administrative ones, while the expenditures for benefits were exceeded by 78 million, which shows deficiencies in the accuracy of the budget planning as a whole and from the structural side of the programs in particular. According to the SII, the expenditures for special programs have not been realized, since all the new pensions related to the law 104/2014 "On some amendments and additions to the law no. 7703", dated on 11.5.1993, "On social insurance in the Republic of Albania", amended, income compensation has been combined with the pension, and those for the supplementary scheme have not been realized, mainly due to non-withdrawal within the deadlines, while the administrative expenses from care in complying with the programmed indicators.

Chart no. 11 Structure of expenditures according to social insurance programs



Source: SII data, processed by ALSAI

Compared to 2020, it turns out that 13,879 million ALL more were spent on social insurance, or an increase of 10.3%, this increase is almost entirely in the benefits expenditures.

Insurance expenditures account for 8.4% of GDP, with an increase of 0.1 percentage points compared to 2020.

Budget funding (difference between total expenses - contribution income) in 2021 was 53,227 million ALL, with an increase of 2,496 million ALL compared to the previous year. Maintaining an upward trend of total expenses for social insurance and fluctuations in the collection of contributions, condition the total level of financing of this scheme, which generally tends to increase every year, and which after 2014 has increased by 34%.

Referring to the audit carried out at the SII, it results that the contributor/beneficiary ratio, one

of the main indicators of the sustainable operation of the scheme and the reduction of budget funding, in 2021 is 1.42, or 0.05 points better than in 2020, that of the level of 2014, evidencing a critical development of the degree of dependence of the system. This high degree of dependence, insufficient to cover the financial parameters of the system, has been compensated by the increase in budget subsidies and also by administratively limited pension measures, through ceilings, which have damaged the organic link between contribution and benefit, as well as stimulated avoidance of payments for at least all those who had salaries above the average salary level.

Also, it is found that the average pension has a low ratio compared to the average salary.

The fiscal deficit of the social insurance scheme, considered the difference between expenses and income from contributions (including contributions and destination financing from the state budget), in 2021 was 37,725 million ALL, a deficit that continues to grow from year to year, increasing in absolute value in the amount of 900 million ALL compared to 2020, although there is an improvement of 0.14 percentage points. As a result of the above expenses, the level of the actual subsidy was actually lower than the one calculated for 2,994 million ALL: It should be noted that the subsidy of the social insurance scheme in our country from the state budget continues to remain high, as they represent 25.5% of the total expenses for social insurance.

The fiscal deficit for the village scheme in 2021 resulted in 9,043 million ALL, a decrease compared to 2020, but still remains quite deficient and dictates the need for reform and further adjustments.

The deficit of the city's pension branch was found at the level of 21,840 million ALL, with an increase of 2,650 million ALL from 2020.

It should be noted that the overall deficit would be lower, since in 2021 the payment for benefits on account of previous periods has increased by about 1,943,236 thousand ALL.

At the end of 2021, there were a total of 673,542 beneficiaries of all types of pensions (old age, disability and family), of which 84% in urban areas and the rest in rural areas, with an increase of 7,975 pensioners compared to 2020, or to the extent of 1.1% more.

From the audit of the inter-institutional relations between SII and GDT, problems and deficiencies in the system of transfer of payment lists have been found, since in addition to the missing payment lists, from those sent, there are cases of incorrect placement of the Personal Identification Number (PIN); the list of payments for the periods of successful persons, and separate months for various subjects and individuals, which meanwhile appear in the tax system, do not yet appear in the system; it doesn't appear in the system when subjects make partial payments, the date of tax declaration corrections, ESIG-25 payment list, etc., which creates possible problems related to the conditions of short-term and long-term benefits, etc.

In relation to the database of entities for the period 2005-2012, for entities closed before 2010, no data was forwarded by the tax authorities. In the same way, for entities that have paid late (outside the legal deadlines) or for entities that are on a debt repayment schedule, for the above tax period, the relevant data has not been updated, while the persons are submitted to the social insurance by order of payments and certification according to the relevant periods (mainly tax periods of 2013-2014).

On the part of the GDT, until 22.01.2022, a total of 10,953,766 payment lists in electronic format, belonging to the time period 2012 - 2021, have been sent to the SII.

The Benefits Inspection Unit at ISSH has evidenced that for the year 2021 there are 5.6% of files inspected with various problems which are considered uncertified, from which, 424 files with a debit effect in the amount of 17.8 million ALL and 556 files with a credit effect in the amount of ALL 17 million, as a result of the deficiencies found by the verified documentation in the files of the beneficiaries, which come from the wrong calculations of the employees in the Benefits Branches.

From the audit carried out in the SII, it appears that there is a lack of strategy for the development of the social insurance system in the medium-term and long-term period; the relevant legislation has been accompanied by numerous changes (so far 22 times) without reforming the system and solving its problems; budget funding has been increasing year by year; there is a slow and low increase in the number of contributors, keeping the dependency ratio of the system low at 1 contributor for 1.42 beneficiaries.

ii. Expenditures for health insurance

According to the initial budget law, the total expenses for health insurance for 2021 were 47,506 million ALL, as well as the ceiling of the medication reimbursement fund in the amount of 11,700 million ALL, including arrears, of which 1,200 million ALL are planned to be used for the reimbursement of medications for the treatment of COVID-19. These expenses had a funding source, health insurance contributions in the amount of 14,084 million ALL and transfers from the state budget in the amount of 33,422 million ALL.

With NA no. 26, dated on 22.06.2021, the total planned health expenses have changed to the value of 46,136 million ALL (-1,370 million ALL), keeping the value of contributions unchanged and reducing transfers from the state budget to the value of 32,052 million ALL.

With NA no. 34, dated on 03.12.2021, the total planned health expenses have not changed (46,136 million ALL), restructuring the source of financing by increasing contributions and reducing transfers from the budget by 1,000 million ALL, respectively in the values of 15,084 million ALL and 31,052 million ALL.

Changes in the total value of health insurance expenditures, and the structure of financing sources between contributions and transfers from the budget within annual periods, indicate a lack of precision in the planning of expenditures.

From the audit of the Compulsory Health Care Insurance Fund (CHCIF) it has been established that during 2021 there have been changes to the approved budget by normative acts and changes to the DCM for the hospital service which have also brought about the change reflected in the Decisions of the Administrative Council (DAC):

- With DAC no. 6, dated on 24.02.2021, on the same date as the approval of the budget, additional funding was approved in public hospitals that offer health service packages in the amount of 1,153 million ALL in total, out of the proposed 1,393,200 thousand ALL. So, the Administrative Council has allocated fewer budgets for packages in public hospitals than the proposal from the relevant directorates;
- With DAC no. 7, dated on 24.02.2021, funds were distributed for hospital services from the

budget opened to cope with the effects of the salary increase for the year 2021 in items 600 and 601 in the total amount of 1,767 million ALL. The rest of the difference from the total budget of 1,981 million ALL added to the hospital service has remained in reserve to be used during the year;

- With DCM no. 175, dated on 17.03.2021, the additional fund for the management and operation of the Fier Memorial Regional Hospital was allocated in the amount of 300 million lek with the reserve fund of the Council of Ministers as the funding source;

- With DCM no. 229, dated on 14.04.2021, redistribution of funds between budget programs was carried out by reducing the budget program "Primary care services", in the category of current expenses, in the amount of 140 million ALL.

- With DCM no. 300, dated on 19.05.2021, the annex to the financing of the hospital service was amended by distributing a part of the approved budget for PPPs of laboratories in public hospitals totaling 553,661 million ALL and still leaving in reserve the amount of 726,783 million ALL.

The changes that occurred in the budget with DCM during this period have been updated with DAC no. 11, dated on 21.05.2021.

- With Normative Act no. 26, dated on 22.06.2021, the fund for the reimbursement of Covid-19 medicine has been reduced by 1,000 million ALL and at the same time funding for primary care has been reduced by 370 million ALL, in total with an effect of 1,370 million ALL reflected in the reduction of the contribution of the state budget for the primary.

- With DAC no. 15, dated on 27.07.2021, the reserve created for PPPs of laboratories was distributed to public hospitals in the amount of 445,979 million ALL. It is established that not only funds have been distributed from the reserve, but redistribution has also been carried out, reducing the budget for some hospitals and increasing it for others for the laboratory service, reflecting deficiencies in the planning process on the part of the CHCIF, preparing the analysis regarding the proposed budget that is needed for some of the reference hospitals until the end of 2021 in the amount of 564.6 million ALL as a value to be added, while there is no proposal regarding the reduction of the budget value in the hospitals in which the reduction is referred.

- With DAC no. 16, dated on 27.07.2021 "For distribution from the hospital service budget reserve for 2021" The Administrative Council has decided to distribute funds from the hospital service budget reserve in the total amount of 477.4 million ALL. The audit found that according to the changes in the respective table of the hospital budget, not only distribution from the reserve was carried out, but also redistribution was carried out by reducing the budget of the hospitals, that is, which were financed not through the reserve;

- With DCM no. 563, dated on 29.09.2021, the attached appendix on the financing of public hospitals and other services has been amended. In the approved budget amendment table, this is reflected as an addition to the hospital budget reserve from the unspecified annual reserve in the amount of 506 million ALL, which was distributed on the same day as this DCM;

- With DAC no. 20, date on 08.11.2021, budget redistribution and distribution from the hospital service budget reserve in the amount of 378 million ALL for various public hospitals has been decided to finance the additional requests of hospitals for the remuneration of medical staff

engaged in coping with COVID-19 and for a part of the needs for goods and services (presented request of 900 million ALL);

- With DAC no. 21, dated on 08.11.2021, the amendment of the DCM for the financing of hospital services was decided, referring to the 9-month situation which results in savings in the concessionary contract for dialysis, sterilization, laboratories and in the bonus of specialist doctors in the total amount of 327 million ALL which can go towards meeting the needs of hospitals for goods and services. These changes were then reflected with DCM no. 702, dated on 18.11.2021, which changed the appendix to the approved budget for the hospital service and increased funds for hospitals in the amount of 327.6 million ALL;

- With DAC no. 22, dated on 08.11.2021, the initial budget of the CHCIF was changed (approved by DAC no. 4, dated on 08.11.2021), the effects it has produced are the reduction of the budget intended for investments by 13 million ALL and the use of this amount for additional financing of the Regional Hospital of Durrës for fulfilling its requirements for goods and services;

- With Normative Act no. 34, dated on 03.12.2021, the contribution of the state budget for the financing of the primary care was reduced by 1,000 million ALL and at the same time, the funding from the mandatory health insurance contributions was increased by the same amount. (This has caused the return of a part of the transfer already made through the transfer of monetary funds through the accounts of CHCIF);

- With DAC no. 25, dated on 07.12.2021, distributions have been made from the hospital service budget reserve in the amount of 30 million ALL for bonuses for employees on the front line of the fight against the pandemic mainly for the months of May to October 2021 according to the orders of the MHSP regarding these bonuses;

- With DAC no. 28, dated on 30.12.2021, following DCM no. 867, funding for health centers has been reduced in the amount of 28 million ALL, increasing funding from contributions to Fier Memorial Hospital. According to the accompanying report of the decision, it is established that the increase in funding for Fier Memorial Hospital was carried out as a result of DCM no. 867, date on 29.12.2021, which changed DCM no. 175, dated on 17.03.2021, where the additional financing of this hospital was determined with 28.4 million ALL from the fund's budget;

From the audit, it is found that the biggest changes in the budget of CHCIF have occurred in the budget of hospital care services, mainly influenced by the requests of hospitals, changing the budget by 8 DAC's during the year, without the effects of DCM's and Normative Acts, making the process formal, incorrect, and with consequences in the progress of the operation of the health centers.

From the audit at the CHCIF, the indicators of expenses, planned and realized according to the programs are as follows:

Table no. 23 The plan and realization of health expenditures according to budget items

In million ALL

| Nr. | Name | Progressive plan according to CHCIF | The realization | The difference + and - |
|-----|-----------------------------|-------------------------------------|-----------------|------------------------|
| 1. | Total health expenditures | 50,006 | 49,130 | - 876 |
| a | Administrative expenditures | 975 | 859 | - 116 |

| | | | | |
|----------|---|---------------|---------------|--------------|
| <i>b</i> | <i>Financing for primary care</i> | <i>10,035</i> | <i>9,750</i> | <i>- 285</i> |
| <i>c</i> | <i>For the reimbursement of medicines</i> | <i>10,714</i> | <i>10,624</i> | <i>- 90</i> |
| <i>d</i> | <i>For investments</i> | <i>36</i> | <i>26</i> | <i>- 10</i> |
| <i>e</i> | <i>For the hospital service</i> | <i>28,246</i> | <i>27,871</i> | <i>- 375</i> |

Source: CHCIF data, processed by ALSAI

It should be noted that the progressive expenditure plan according to the CHCIF is 50,006 million ALL and according to the MFE the initial plan was 46,136 million ALL and with the distribution of expenditure reserves for this institution it reached to 50,267 million ALL or 261 million ALL more than the progressive plan of the CHCIF, as a result of the redistributions made by the MFE after the release of the last normative act for the change of the budget.

According to the CHCIF and the fiscal indicators of the consolidated budget, the expenses for health insurance in total for 2021 were realized in the amount of 49,130 million ALL, and according to the data of the CHCIF, the expenses were realized at 98.2% with a non-realization of 876 million ALL, showing that they were spent 5,853 million ALL more than the previous year.

For the year 2021, the total funding of the scheme was in the amount of 49,616 million ALL, or 98.8% of the final plan with a non-realization in the amount of 610 million ALL, and compared to the previous year, the revenues were realized more, for the amount of 5,757 million ALL. The non-realization is in the part of contributions and others, as well as in transfers of the state budget, respectively 381 million ALL and 229 million ALL.

Funding from the state budget transfers constitute 70% of the total actual expenses for health insurance, with an increase of 4,786 million ALL more than in 2020, or with an annual increase of 16%. In this way, the funding from the state budget of the health insurance scheme continues to remain at quite high levels, due to the low level of contributions (contributors), but also due to the high demands for expenditure in this sector.

Expenditures for health insurance make up 7.8% of the total expenditures at the country level and 2.8% of the GDP in 2021.

The expenditures realized according to the budget items result as follows:

a. administrative expenditures. Administrative expenditures were realized in the amount of 859 million ALL out of the planned 975 million ALL or 88%, which financed the activity of the Regional Directorates of the Fund and the central Directorate of the CHCIF for salaries, insurance and goods and services, realized respectively 90%, 96 % and 82%.

b. Financing for primary care, which includes the activity of health centers and the activity of the concession contract for basic medical control, which was partially activated at the end of 2021, has not been realized for 285 million ALL.

Analytical procedures have resulted in an increase in funding for health centers, mainly as a result of the policy implemented to increase salaries for health personnel in the primary care.

From the data related to the financing of the basic control concession contract, it is ascertained that the realization is in the amount of 219 million ALL, a service which started following the order of the MHSP on 01.09.2021 and has been extended until the end of 2021, presenting an overachievement compared to the projection for the entire year. It is established that, following the changes to the concession contract, the level of service provided over the projection of the

contract in the current year has contributed to the reduction of the cost of the service, since these cases are deducted from the monthly service bill, which for the 3-month period paid in 2021, has savings effects in 10,897 cases for the provided service, which amounts to a value of 20 million ALL.

c. Expenditures for the reimbursement of medicines and medical equipment. The audit found that the reimbursement limits set in the amended 2021 budget law for the amount of 10,700 million ALL, including arrears, of which 200 million ALL is used for the reimbursement of medications for the treatment of COVID-19, have not been respected. The data on the reimbursement received by the Reimbursement Directorate and the Information and Statistical Analysis Directorate report on a received reimbursement value of 11,061 million ALL against the updated plan of 10,694 million ALL. So, the reimbursement plan is exceeded by 367 million ALL compared to the approved amended plan.

From the audit, it is found that the obligations related to the reimbursement received for the months of November in a total of 430 million ALL and December in a total of 597 million ALL have not been paid.

d. Investments, in CHCIF, result in a total realization of 26.5 million ALL, compared to the amended plan of 37 million ALL, carried out for the most part by the General Directorate and the rest by the regional directorates of the fund. 73% of the investments went to office and computer equipment and the rest *to the implementation of contracts from previous years*.

e. Funding for hospital service includes funding for public hospitals, costs for packages, Durrës hospital, Fier Memorial Hospital, bonus for doctors, payment for PPP of dialysis and PPP of sterilization, etc. The audit found that the expenses were realized in the amount of 27,871 million ALL, with a non-realization in the amount of 375 million ALL compared to the revised plan of 28,246 million ALL.

It should be noted that, compared to 2020, more expenditures were made, in the amount of 4,016 million ALL, mainly from the increase in financing of public hospitals (increase in the salary level), but also for health packages, PPP, etc. In 2021, the Durrës hospital was also financed from the hospital transfer through the treasury in the amount of 43,000 million ALL for the provision of laboratory services, and the Fier Memorial hospital in the amount of 300 million ALL (defined in the DCM for its operation).

The service with the 2016 concession contract "For the provision of hemodialysis" in 5 regions: Shkodër, Lezhë, Elbasan, Korçë and Vlorë, must be performed for the projected number of patients in 156 sessions per year and the payment for the level of the provided service, simultaneously guaranteeing a minimum according to the projections in the STD, which is part of this contract. In the expenditures on the dialysis concession for the year 2021, it has been established that there are invoices for incomplete services for 6,248 dialysis sessions in the amount of 70 million ALL, mainly in the dialysis centers of Shkodër and Vlorë, and in some months in the dialysis centers of Lezhë and Shkodër, due to the lower number of patients than the number of monthly patients according to the projection. Also, it was found that 1,447 dialysis sessions were performed and billed above the projection defined in the concession contract, since the level of the monthly benefited service was above the projected values (Elbasan and Lezhë), with a financial effect in the amount of 16 million ALL.

From the analysis of the realization data and the initial projections, it is found that the drafting of the projections is not in accordance with the real needs for the performance of the service, which is reflected year after year and this is accompanied by not revising the projections or changing the billing method according to the actual service, and as a result it has brought negative financial effects in the administration of the budget of CHCIF.

In the sterilization concession, within the contract for "Integrated services for the supply of a personalized set of sterile surgical instruments and the supply of sterile medical materials", which began in 2016, the expenses are presented in the amount of 1,550 million ALL, while the number of interventions according to the three complexities has not exceeded the projection of 63,000 interventions. Compared with the final budget plan, it is found that the service was received within the budgeted value. According to VKM no. 20, dated on 20.01.2020, the initial plan was in the amount of 1,705 million ALL, and after the revision with VKM no. 702, dated on 18.11.2021, the final plan is in the amount of 1,565 million ALL, where a reduced value of 140 million ALL is reflected. Keeping the sterilization service under control within the approved budget, conditions the level of service provided for surgical intervention in the health of the population.

In addition, it was found that there is no correct protocol of interventions/sets, the number of sets in the contract annex and the fact according to the applied diagnoses. This is because, from the administered data, it turns out that there is a much greater number of diagnoses/interventions compared to the number of used sets. Konfigurimi i seteve dhe ndryshimi i kompleksiteteve sjell vështirësi në monitorim. Also, for the same interventions/sets, 3 levels of complexity have been applied, as well as the change of 2 or 3 levels of complexity leads to non-compliance with the budget ceiling, imbalance in the budget, with the consequence of limiting interventions for patients.

In the concession of laboratories, the implementation of the concession contract has started throughout the year 2021 in university hospitals and regional hospitals and 2 municipal hospitals. Of the planned 1,138 million ALL, 1,106 million ALL or 97% have been realized. The largest part of the budget, over 50%, has been allocated to QSUT, while the service has not started in Kukës Hospital.

The budget of the packages includes the financing by CHCIF of the packages in public and private hospitals for cardiology, cardiac surgery, dialysis, etc., planned in the amount of 3,185 million ALL, realized in the amount of 3,441 million ALL.

From the audit of the FSDKSH, negative effects have been found in the administration and management of the economy, efficiency and effectiveness of public funds in the total value of 91 million ALL for: liquidations for final court decisions in 2021 for former employees dismissed from work in the period 2016 - 2020 in the total value of 20 million ALL; in the concession contract "For the provision of hemodialysis" it was found that the number of dialysis sessions according to the monthly projection was not carried out, mainly in the dialysis centers of Shkodër and Vlora, and for several months in the dialysis center of Lezhë, due to the lower number of patients than the projection, with a financial effect from billings for incomplete services for dialysis sessions in the amount of 70 million ALL.

iii. The expenditures for the compensation of the owners have been realized in the amount of

about 2,297 million ALL of the planned 2,700 million ALL, or resulting in 76.6% of the initial annual plan or 85.1% of the annual plan with changes by normative acts.

2.2 Capital Expenditures

Referring to the fiscal indicators of the consolidated budget, Capital Expenditures for the year 2021 (not including the Reconstruction Fund) result in the amount of 98,203 million ALL, or 87.6% of the annual plan amended by NA (Normative Act) No. 34, or with a non-realization of 13,825 million ALL. Compared to 2020, capital expenditures are 15.1% higher, or 12,893 million ALL more.

Capital expenditures consist of Internal Financing, Foreign Financing and Investments from Higher Education revenues, the final plan and realization of these items are given in the table below.

Table no. 24 Realization of capital expenditures according to the structure, 2021

In thousand ALL

| No | Classification | Final Plan | Realization | % of the realization | The difference |
|----|--|-------------|-------------|----------------------|----------------|
| I. | Capital Expenditures | 112,028,000 | 98,202,620 | 88 | - 13,825,380 |
| a | Internal Financing | 80,200,000 | 72,116,140 | 90 | - 8,083,860 |
| b | Foreign Financing | 31,028,000 | 25,378,230 | 82 | - 5,649,770 |
| c | Investments from Higher Education income | 800.000 | 708,250 | 88 | - 91,750 |

Source: MFE data processed by ALSAI

Investment projects with internal financing have been realized around 72,116 million ALL or 90% of the annual plan amended by NA no. 34. Investments from higher education revenues marked a realization in the amount of 708 million ALL or 88.5% of the amended plan; while foreign financing was realized in the amount of 25,378 million ALL or 81.5% of the amended annual plan.

-From the audit in the Ministry of Finance and Economy, on the detailing of funds for public investments with internal financing approved by law no. 37/2020 "On the 2021 budget", as amended, are found 16 investment projects with a value of 406,102 thousand ALL, which have the description "Frozen Fund". The most representative institutions where these funds are detailed throughout the year include the Ministry of Agriculture and Rural Development as well as the Albanian Road Authority. The detailing of these "frozen funds" for capital investment is not in accordance with the determinations of the definition for the public investment project. The reservation of the funds of these investments according to the initial detail does not create the possibility of developing procurement procedures throughout the year or the use of these funds for ongoing projects or for the repayment of arrears.

-During the year 2021, arrears were paid in the amount of 10,065,435 thousand ALL, which represent about 14% of Capital Investments with Internal Financing realized for the year 2021, an action which doesn't present correctly the indicators of the public investment's realization of the budget year, as invoices dating back to 2009 were also presented as investments of the year.

-It's reported as a realized investment in 2021, the investment project of the Albanian Road

Authority, with M062991 code and the description "Court cases in process" and a value of 407,579 thousand ALL, of which 380,836 thousand ALL represent arrears from previous periods starting from 2017.

- It is established that payment plans were registered in FISG in year 3 for 15 projects, in the amount of 1.9 billion ALL, without payment plans for the current year, year 1 and year 2. The registration of these investment projects this year was carried out under the conditions of lack of funds approved budget for commitments undertaken in the current year or previous budget years, as it's not possible that the commitments undertaken with relevant contracts are not expected to be executed during the next 2 budget years.

- It is established that capital investments with internal financing in the amount of 1,148 million ALL were realized, registered in FISG, which do not have an approved budget plan, while in the Table of Consolidated Fiscal Indicators they are reported to have been realized according to the budget plan.

- 8 investment projects, with the amount of 132,228 thousand ALL, and the description "Students following the first cycle of studies", have been accounted on the account no 231 "Corporate Capital Investments" in several different spending units. The same investment project code was used for some higher education institutions, without identifying the investments made at the investment product level, with an impact on the quality of the reported information and difficulties in following their progress.

- Commitments were made after October 15 for public investments, with a total of 1033 contracts, and with a total contracted value of 40,311,249 thousand ALL, while the commitment for 2021 results in 4,294,776 thousand ALL. This action is not in accordance with the requirements of law no. 9936 dated on 26.06.2008 "On the management of the budget system in the Republic of Albania", as amended. The most representative institutions according to the classification in the contract module in SIFQ are the Ministry of Infrastructure and Energy Apparatus with 20 billion ALL and the Albanian Road Authority with around 17 billion ALL.

- In the Albanian Development Fund, in the budget program 6210 "Development programs", the local cost of managing the investment projects in the amount of 1,106,251 thousand ALL, with the project code "M560322" Secondary and local roads project", is reported as a realized investment, with the Albanian Development Fund as the beneficiary fund, while these funds are used in second-level bank accounts by the Albanian Development Fund for the current expenditure activity of the institution.

- In AARD, it is established that capital investments were reported with project code 18AL301 "Beneficiaries from the IPARD II Program from measure 1", in the amount of 700,411 thousand ALL. This investment project is reported from chapter 3 "local costs". In the database of payments made in FISG, it is found that the spending unit is AARD with the beneficiary being the Ministry of Finance and Economy with the description National Fund IPARD II, local costs and according to the payment of the relevant lists. These payments are made within the framework of the co-financing of EU funds for the support of farmers/agritourism in making investments by investors. The share of the state budget within the framework of co-financing is 25%, while it is established that by nature, we are not dealing with capital investment, but with a grant given to third parties. In this way, the indicators of public investments are overestimated as a result of

the reporting of the realization of this project, since we are not dealing with the implementation of public investments where the owner is the state, but giving grants to different beneficiaries for making investments on their part.

From the audit in the MFE on the detailing and redistribution of investment funds throughout the year 2021, problems have been identified, which, analyzed according to the budget programs and relevant institutions, are presented as follows:

-Budget program 4520 "Road transport", MIE and ARA is planned with the budget law of the year in the amount of 17,812,923 thousand ALL and has undergone changes with AN no. 26, dated 22.06.2021, where the value of internal financing has increased by 4,800,000 thousand ALL. The addition of investment projects in this program was carried out by opening new projects for only 20% of the value in the first year, without going through the medium-term Budget Planning process 2021-2023 (MTBP 2021-2023 process). Further, this budget program has been increased with NA no. 34, dated on 31.12.2021 with the value of 3,000,000 thousand ALL, carrying out revisions in almost all investment projects with internal financing in connection with this program, which consist of reducing the budget from projects in procurement/newly concluded contracts, in ongoing investment projects.

-The revisions carried out after November 15 are not in accordance with the deadline set in the Budget Implementation Law, for the redistribution of budget funds, as well as the allocation of the budget to infrastructure projects at the rate of 20% brings the risk of creating arrears.

The projects identified with problems from the audit in this budget program include:

- **Project 20AC101 "Construction of the Llogara's Tunnel"**, was detailed for the first time in January 2021 with a value of 4,620,000 thousand ALL, revised with a reduction in November and December 2021, with a value of 700,000 thousand ALL. This project was part of the MTBP, phase III 2021-2023 with a value of 12,120,000 thousand ALL and part of the list of public investments presented with the 2021 Budget Project. The audit found that the procurement procedure started on 24.06.2021, with a limited fund of 22,761,373 thousand ALL with VAT. The contract was concluded on 08.11.2021, with a deadline on 08.07.2024 and a value of 20,443,831 thousand ALL with VAT. It's concluded that the registration of the contract in FISG was done beyond the legal deadline of 5 days, as well as the distribution of the budget by years (until 2025) does not comply with the deadline of works implementation until 2024, creating arrears for the following years.

- **Project 18BS546 "Construction of the road segment Shqiponja Square-New Boulevard, Lot 2"**, was detailed for the first time in July 2021, with a value of 629,000 thousand ALL, revised with an increase in August and a decrease in December, with a final value of 99,999 thousand ALL. It has been established that the procurement procedure started on 16.08.2021, with a limit fund of 2,982,719 thousand ALL with VAT. The contract was concluded on 09.11.2021, with a deadline of 09.11.2023 and a value of 2,863,411 thousand ALL with VAT. This project was not part of the MTBP nor part of the list of public investments of the 2021 Budget Project. Also, from the registration of funds in FISG, it is evident that the distribution of the budget by years (until 2025) does not match with the deadline of works implementation until 2023, creating arrears for the following years.

- **Project 18BS544 "Completion, coordination and continuation of the works Shqiponja Square**

- **River of Tirana, Lot 1 and TMC**", detailed for the first time in July 2021, with a value of 573,000 thousand ALL. From the audit, it is established that the procurement procedure started on 01.11.2021, with a limit fund of 2,850,662 thousand ALL with VAT. The contract was concluded on 24.12.2021, with a deadline of 24.02.2023 and a value of 2,740,677 thousand ALL with VAT. This project was not part of the PBA 2021-2023 nor part of the list of public investments of the 2021 Budget Project, and the contract was not registered in the FISG until the end of 2021.

- **Project 18BS542 "Construction of the outer ring, Lot 7"**, initially detailed in July 2021, with a value of 575,000 thousand ALL, has been revised and presented with a final value of 1 (one) thousand ALL in December. The procurement procedure started on 16.08.2021, with a limit fund of 2,824,316 thousand ALL with VAT. The contract was concluded on 09.11.2021, with a deadline on 09.11.2023 and a value of 2,713,594 thousand ALL with VAT. The audit concluded that this project was not part of the MTBP 2021-2023, nor part of the list of public investments of the 2021 Budget Project, as well as the distribution of the budget by year (until 2024) does not comply with the deadline of works implementation until 2023, creating arrears for the following years.

- **Project 18BS539 "Construction of the outer ring, Lot 4"**, detailed for the first time in July 2021, with a value of 517,000 thousand ALL and has been revised and presented with a final value of 1 thousand ALL in December. The procurement procedure started on 16.08.2021, with a limit fund of 2,516,351 thousand ALL with VAT. The contract was concluded on 11.11.2021, with a deadline on 11.11.2023 and a value of 2,389,221 thousand ALL with VAT. The audit found that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the 2021 Budget Project, and it is evident that the distribution of the budget by years (until 2024) does not comply with the deadline of works implementation until 2023, creating arrears for the following years.

- **Project 18BS545 "Construction of the road segment Shqiponja Square-New Boulevard, Shkozë, Bridges over the river Tirana"**, detailed for the first time in July 2021, with a value of 617,000 thousand ALL, a value which was revised with a final value of 1 thousand ALL in December. The procurement procedure started on 16.08.2021, with a limit fund of 3,071,183 thousand ALL with VAT. The contract was concluded on 09.11.2021, with a deadline on 09.11.2023 and a value of 2,385,438 thousand ALL with VAT. The audit concluded that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the 2021 Budget Project, as well as the distribution of the budget according to years (until 2024) does not comply with the deadline of works implementation until 2023, creating arrears for the following years.

- **Project 18BS540 "Construction of the Outer Ring of Tirana, Lot 5"**, was detailed for the first time in July 2021, with a value of 474,000 thousand ALL, revised with a final value of 1 thousand ALL in December. The procurement procedure started on 16.08.2021, with a limited fund of 2,327,172 thousand ALL with VAT. The contract was concluded on 09.11.2021, with a deadline on 09.11.2023 and a value of 2,163,317 thousand ALL with VAT. The audit concluded that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the 2021 Budget Project, as well as the distribution of the budget according to years (until 2024) does not comply with the deadline of works implementation until 2023, creating arrears for the following years.

- **Project 18BS541 "Construction of the Outer Ring of Tirana, Lot 6"**, was detailed for the first time in July 2021 with a value of 453,000 thousand ALL, revised with a final value of 1 thousand ALL in December. The procurement procedure started on 15.10.2021, with a limit fund of 2,179,627 thousand ALL with VAT. The contract was concluded on 09.11.2021, with a deadline on 09.11.2023 and a value of 2,060,293 thousand ALL with VAT. The audit concluded that this project was not part of the MTBP 2021-2023, nor part of the list of public investments of the 2021 Budget Project, as well as the distribution of the budget by year (until 2024) does not comply with the deadline of works implementation timeline until 2023, creating arrears for the following years.

- **Project 18BS550 "Completion of works on the road segments the Bridge of Krane Qafë Botë and the improvement of the road segment the Bridge of Gajdari"**, was detailed for the first time in July 2021, with a value of 300,000 thousand ALL, revised in December with a final value of 170,000 thousand ALL. The procurement procedure started on 15.10.2021, with a limited fund of 1,699,874 thousand ALL with VAT. The contract was concluded on 24.12.2021, with a deadline on 23.06.2023 and a value of 1,624,673 thousand ALL with VAT. The audit concluded that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the 2021 Budget Project, and it is not registered in the FISG.

- **Project 18BS547 "Construction of the Porto Romano Durrës Street, Lot 3"**, was detailed for the first time in July 2021, with a value of 300,000 thousand ALL, revised in December with a final value of 45,967 thousand ALL. From the audit, it is established that the procurement procedure started on 16.09.2021, with a limit fund of 1,497,217 thousand ALL with VAT. The contract was concluded on 02.12.2021, with a deadline on 17.11.2022 and a value of 1,411,112 thousand ALL with VAT. The audit concluded that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the Budget Project 2021. The registration of the contract in FISG was made on 15.12.2021, beyond the legal deadline of 5 days and the allocation of the budget by years (until 2025) does not match the deadline for the works implementation until 2022, creating arrears for the following years.

- **Project 18BS530 "Construction of the Kardhiq Delvinë Street, Lot 4" additional works**, detailed in January 2021 with a value of 130,000 thousand ALL, revised with an increase in December with a final value of 152,388 thousand ALL. The procurement procedure started on 30.03.2021, with a limit fund of 558,242 thousand ALL with VAT. The contract was concluded on 14.04.2021, with a deadline on 14.10.2021 and a value of 558,146 thousand ALL with VAT. The audit concluded that this project was part of the MTBP, 2021-2023, but not part of the list of public investments of the Budget Project 2021. The registration of the contract in FISG was made on 16.04.2021, within the legal deadline of 5 days.

- **Project 18BS534 "Construction of Kardhiq Delvinë Street, Lot 5" additional works**, detailed in January 2021, with a value of 80,000 thousand ALL, revised with an increase in December with a final value of 314,790 thousand ALL. The procurement procedure started on 01.04.2021, with a limit fund of 399,031 thousand ALL with VAT. The contract was concluded on 23.04.2021, with a deadline on 23.10.2021 and a value of 399,021 thousand ALL with VAT. The audit concluded that this project was part of the MTBP 2021-2023. The registration of the contract in FISG was made on 23.04.2021, within the legal deadline of 5 days.

- **Project 18BS537 "Rehabilitation of the road segment pallati me shigjeta Overpass -**

Shqiponja 2 roundabout" additional works, detailed in January 2021, with a value of 76,000 thousand ALL, revised with an increase in December with a final value of 101,828 thousand ALL. The procurement procedure started on 26.03.2021, with a limited fund of 376,079 thousand ALL with VAT. The contract was concluded on 06.04.2021, with a deadline on 06.12.2021 and a value of 376,079 ALL thousand with VAT. The audit found that this project was part of the MTBP 2021-2023. The registration of the contract in FISG was made on 08.04.2021, within the legal deadline of 5 days.

- **Project 20AF401 "Construction of the connecting road of the International Airport of Vlora - Fier Vlora Highway"** was detailed in September 2021, with a value of 70,000 thousand ALL, revised with a reduction in December with a final value of 1 thousand ALL. The procurement procedure started on 12.10.2021, with a limited fund of 320,437 thousand ALL with VAT. The contract was concluded on 31.12.2021, with a deadline on 30.11.2022 and a value of 251,920 thousand ALL with VAT. The audit found that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the Budget Project 2021. The contract is not registered in FISG.

- **Project 18BS711 "Improvement of horizontal signage on axes and road segments of the Southern Region"**, was detailed in January 2021, with a value of 70,000 thousand ALL, revised with an increase in December with a final value of 149,402 thousand ALL. This project was part of the MTBP, 2021-2023. The procurement procedure started on 23.03.2021, with a limited fund of 199,986 thousand ALL with VAT. The contract was concluded on 26.05.2021, with a deadline on 11.12.2021 and a value of 191,964 thousand ALL with VAT. The audit found that the contract was registered in FISG on 03.06.2021, beyond the legal deadline of 5 days.

- **Project 18BS709 "Improvement of horizontal signage on axes and road segments of the Northern Region"**, was detailed in January 2021, with a value of 70,000 thousand ALL, revised with an increase in December with a final value of 191,007 thousand ALL. The procurement procedure started on 18.03.2021, with a limited fund of 199,999 thousand ALL with VAT. The contract was concluded on 11.05.2021, with a deadline on 11.12.2021 and a value of 191,961 thousand ALL with VAT. The audit found that this project was part of the MTBP 2021-2023. The contract is registered in FISG on 17.05.2021, beyond the legal deadline of 5 days.

- **Project 18BS710 "Improvement of horizontal signage on axes and road segments of the Central Region"**, was detailed in January 2021, with a value of 40,000 thousand ALL, revised with an increase in December with a final value of 150,740 thousand ALL. The procurement procedure started on 18.03.2021, with a limited fund of 199,904 thousand ALL with VAT. The contract was concluded on 11.05.2021, with a deadline on 11.12.2021 and a value of 190,730 thousand ALL with VAT. The audit found that this project was part of the MTBP 2021-2023. The contract is registered in FISG on 18.05.2021, beyond the legal deadline of 5 days.

- **Project 18BS548 "Construction of Fushë Bardhë road, connection with Kardhiq Delvinë road"**, was detailed in July 2021, with a value of 40,000 thousand ALL, revised with a reduction in December with a final value of 1 thousand ALL. The procurement procedure started on 13.08.2021, with a limit fund of 197,401 thousand ALL with VAT. The contract was concluded on 19.10.2021, with a deadline on 19.04.2022 and a value of 161,470 thousand ALL with VAT. The audit concluded that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the Budget Project 2021. The contract was registered in FISG on

20.10.2021, within the legal deadline of 5 days, but the distribution of the budget does not fit the estimated value according to the billing period starting from the term of the contract implementation.

- **Project 18BS614 "Borshi Landslide Emergency"**, was detailed in March 2021, with a value of 131,000 thousand ALL. The procurement procedure started on 19.04.2021, with a limited fund of 163,310 thousand ALL with VAT. The contract was concluded on 28.05.2021, with a deadline on 13.10.2021 and a value of 161,311 thousand ALL with VAT. The audit found that this project was part of the MTBP 2021-2023. The contract is registered in FISG on 03.06.2021, within the legal deadline of 5 days.

- **Project 18BS538 "Construction of the Oroshi road connection with the National Road"**, was detailed in March 2021, with a value of 80,000 thousand ALL. The procurement procedure started on 26.03.2021, with a limited fund of 149,561 thousand ALL with VAT. The contract was concluded on 26.05.2021, with a deadline on 06.12.2021 and a value of 139,158 thousand ALL with VAT. The audit found that the project was part of the MTBP 2021-2023. The contract is registered in FISG on 03.06.2021, beyond the legal deadline of 5 days.

- **Project 18BS549 "Construction of Senicë village road and the connection with Kardhiq Delvinë road"**, was detailed in July 2021, with a value of 40,000 thousand ALL, revised in December with a final value of 1 thousand ALL. The procurement procedure started on 23.09.2021, with a limited fund of 198,577 thousand ALL with VAT. The contract was concluded on 15.11.2021, with a deadline on 14.05.2022 and a value of 134,135 thousand ALL with VAT. The audit concluded that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the Budget Project 2021. The contract was registered in FISG on 23.11.2021, beyond the legal deadline of 5 days.

- **Budget program 6370 "Water supply and sewerage"** is planned with the 2021 budget law in the amount of 6,508,016 thousand ALL and has undergone changes during the year as follows: with NA no. 26, dated on 22.06.2021, increased by 2,500,000 thousand ALL and further increased by NA no. 34, dated on 31.12.2021 with 4,441,000 thousand ALL.

The projects identified with relevant issues in this budget program include:

- **Project 19AE317 "Construction of the Vranisht water supply"**, was detailed in May, in the amount of 39,471 thousand ALL. The procurement procedure initiated by the Himara Municipality started on 15.06.2021, with a limited fund of 197,335 thousand ALL including VAT. The contract was concluded on 10.08.2021, with a value of 194,445 thousand ALL with VAT and a completion date on 10.05.2022. It was found that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the Budget Project 2021. The contract results registered in FISG on 13.09.2021, beyond the legal deadline of 5 days.

- **Project 19AE007 "Delivery pipeline from Virovë-Depo station 2500 m3, water supply distribution network of the 18 November neighborhood (Lushnjë Ring Road - Highway), water supply distribution network of Karbunarë neighborhood"** has been detailed for the first time in March, in the amount of 68,960 thousand ALL. The procurement procedure initiated by **Water Supply and Sewerage Lushnjë** started on 18.03.2021, with a limited fund of 302,927 thousand ALL including VAT. The contract was concluded on 03.06.2021, with a value of 301,087 thousand ALL and a completion date on 03.06.2022. The audit concluded that this project was not part of

the MTBP 2021-2023 nor part of the list of public investments of the 2021 Budget Project.

- **Project 19AE107 "Construction of water pipelines for the administrative unit of Ballaban, Sukë and Dishnica Lot I"**, was detailed for the first time in March, in the amount of 60,000 thousand ALL. The procurement procedure initiated by the Municipality of Këlcyra started on 30.03.2021, with a limited fund of 302,732 thousand ALL with VAT. The contract was concluded on 29.06.2021, with a value of 299,380 thousand ALL and a completion date on 29.06.2022. The audit concluded that this project was not part of the MTBP 2021-2023, nor part of the list of public investments of the 2021 Budget Project.

- **Project 19AE005 "Construction of a line for the transmission of the external network of the Regional water supply (from the Spring of Poçemi)"**, was detailed for the first time in March, in the amount of 115,158 thousand ALL. This investment was contracted by the Mallakastër Municipality on 06.07.2021, with a value 575,250 thousand ALL. The audit concluded that this project was not part of the MTBP 2021-2023 nor part of the list of public investments of the 2021 Budget Project.

- **Project 19AE315 "Water supply of Baba Rexhepi area and Lugu i Dardhës, Phase II- (Final Lot)"**, contracted by the Municipality of Sarandë with the value of 378,837 thousand ALL was not part of the PBA 2021-2023 nor part of the list of investments of the 2021 Budget Project.

Budget program 4240 "Drainage and Irrigation Infrastructure".

The projects identified with problems from the audit in this budget program include:

- **Project 18AK329 "Protection from the Fan River, Rreth i Epërm Mirditë village"** was detailed for the first time in June, in the amount of 51,143 thousand ALL. This project was not part of the MTBP 2021-2023 nor part of the list of public investments of the Budget Project 2021. The FISG shows a contract registered on 14.09.2021, in the amount of 62,756 thousand ALL, which does not appear in the register submitted by PPA. This investment was contracted by the Lezhë Drainage Board.

- **Project 18AK208 "Rehabilitation of Karavasta's water reservoir"**, was detailed in March, in the amount of 68,960 thousand ALL and was contracted by the Fier Drainage Board. This project was not part of the MTBP 2021-2023 nor part of the list of public investments of the 2021 Budget Project.

Program 1087006 "General services".

The projects identified with problems from the audit in this budget program include:

- **Project 20AD409 "Improvement and expansion of the national secure communication network"**, was detailed for the first time in December, in the amount of ALL 75,806 thousand and was contracted by ANA. This project was not part of the PBA 2021-2023 nor part of the list of public investments of the Budget Project 2021. This contract does not result in the register sent by APP nor registered in SIFQ.

- **Project 20AA301 "Electronic identification of voters"**, was initiated with AN no. 6, dated 05.02.2021, for the amount of 2,420,000 thousand ALL, without passing through any phase of the budget cycle, in the framework of the commitment undertaken by the government for implementation in the parliamentary elections of April 25, 2021. It is established that the

initiation of the procurement procedure has been at the end of 2020, specifically on 23.12.2020, with a negotiation procedure without announcement, with a limit fund in the amount of 2,112,304 thousand ALL and contract value in the amount of 2,419,626 thousand ALL including VAT.

Program 06220 "Local and regional infrastructure"

Regarding the ongoing contracts of the program, it is established that for 6 projects, payments for arrears have been made, in the total amount of 89,353 thousand ALL.

- Regarding the new investment projects for this program, it turns out that for 3 projects, *code 18BP031 "Reconstruction of the road segment Peshkëpi - entrance to the city of Selenica", 18BP033 "Construction of the road segment "Sabri Kosturi", "Lushnjë", 18BP034 "Construction of the automobile bridge of Darëzeza, Fier"*, the contracts were registered in FISG outside the 5-day deadline. The contracts, although 2 of them have an implementation period of 12 months and 1 contract has an implementation period of 3 months, a part of the value of these contracts has been registered for the years 2024 and 2025. In total, for all three projects, commitments have been made without having the available funds in the amount of 340,341 thousand ALL, of which for the project with code 18BP301 in the amount of 260,794 thousand ALL, for the project with code 18BP033 in the amount of 55,345 thousand ALL and for the project with code 18BP034 in the amount of 24,223 thousand ALL.

- **For the project with code 18BP035 "Multifunctional center of regional development, Region 4, Phase I"**, it results that the contract in the amount of 464,000 thousand ALL without VAT, with a term of 10 months, was concluded after October 15. For 2021, this contract is not registered in FISG. At the moment of the beginning of the procurement procedures and during the conclusion of the contract, this project had available budget funds in the amount of 143,883 thousand ALL, taking a budget commitment without budget funds in the amount of 413,397 thousand ALL. Referring to the description of payments registered in FISG, it turns out that an advance payment in the amount of 55,728 thousand ALL was paid for this project.

- **For the project with code 18BP036 "Roads parallel to the railway from the Kamza bend to the railway station in Kashar- Lot I"**, it results that the contract concluded on 26.08.2021, with a term of 12 months, in the amount of 107,491 thousand ALL without VAT, is not registered in SIQF. At the time of the initiation of the procurement procedures and during the conclusion of the contract, this project had available budget funds in the amount of 53,305 thousand ALL, taking a budget commitment without budget funds, in the amount of 75,684 thousand ALL.

From the audit in MFE regarding public investments, it results that the problems in the registration and monitoring of projects consist of:

-Revisions have been carried out in almost all investment projects with internal financing, which result in the reduction of the budget of newly concluded contracts, in ongoing investment projects, as a result of the allocation of the budget to infrastructure projects in the amount of 20%, without previously going to the MTBP 2021-2023. Opening the projects only for the value of 20% of the project in the current year, compromises the purpose of concluding the contracts, since starting from the time of the development of the procedure at the end of the year, it is evident the impossibility of implementing the project, as also ascertained from the actual realization where most of them result with a 0-10% realization level. This practice of financing

within the year weakens the credibility of the MTBP and the budget process, as it requires new investment projects to enter the budget after established selection and approval processes at the beginning of the year. These projects are mainly evident in the transport sector (roads), water supply. A significant part of the disbursed funds after the approval of the NA was used to cover the payments for the arrears of 2020.

- Some public investments included in the 2021-2023 budget plan are not covered by funds during the three-year period, passing outside of this period for the value of 7,213,122 thousand ALL, as well as bringing as a result an increased risk of creating arrears. Also, there are cases of new projects having 20% funding in the first year followed by no allocation in the following years, for which the funding is planned to be very low, thus extending the project completion date beyond the 3-year term of the MTBP.

- During 2021, investment projects were presented and approved in a fragmented manner, creating a very large number of projects, which makes their monitoring difficult.

- Numerous reallocations, which serve to create budget space for the start of new projects, mainly for the road transport program and water supply and sewerage;

- Public investment contracts not registered in FISG have been identified;

- As a result of the allocation of funds from the existing ones for new projects, conditions are created for the emergence of arrears in these investments, forcing the government to undertake budget adjustments through normative acts. The above problems indicate significant deficiencies in the planning of public investments by central and local institutions, with the effect of pressure on the increase of public debt, as a result of non-compliance with the approved limits for expenditures in the current budget year and the approved limits for future budget years.

Capital expenditures with foreign sources of financing are considered all funds from loans, credits and grants received by the Republic of Albania and the Council of Ministers from foreign countries, international organizations, international financial institutions, foreign banks, non-governmental organizations, etc. In the 2021 budget law, investments with foreign financing are planned in the amount of 34,428 million ALL, while with NA no. 34, dated on 03.12.2021, the expenses for foreign investments have been revised to the value of 31,028 million ALL, decreasing to the value of 3,400 million ALL. Referring to the Consolidated Fiscal Indicators and the MFE audit, the capital expenditures with foreign financing were realized in the amount of 25,378,230 thousand ALL or they were not realized in the amount of 5,649,770 thousand ALL, realized to the extent of 82% compared to the final plan. Compared to 2020, capital expenditures with foreign financing were realized for the value of 656 million ALL more or 2.7% more.

According to the structure, it turns out that foreign investments with credit were realized in the amount of 17,851,972 thousand ALL, or 70.3%, and in the form of grants, they were realized in the amount of 7,526,258 thousand ALL, representing 29.7% of the total.

From the audit in the MFE, it was found that:

- eight investment projects, with loans, in the value of 2,965,143 thousand ALL and 43 investment projects with grants in the value of 240,098 thousand ALL, were realized without

having a budget plan approved by the budget law, by normative acts or by budget revisions;

-seven investment projects with foreign financing in the form of loans in the amount of 231,012 thousand ALL and 59 investment projects with foreign financing in the form of grants in the amount of 1,568,526 ALL thousand were realized in excess of the approved budget plan;

Realization of investment projects with foreign financing without a plan or in excess of the approved budget plan is contrary to the provisions of the regulatory acts, since the plan approved by the budget law for foreign financing is the limit that must be respected during the process of spending and in cases of exceeding the spending plan, the central government units must review the budget through reallocations.

-39 investment projects with foreign financing in the total value of 3,153,099 thousand ALL, referring to the project description, are misclassified mainly in account 231 "Investments for the increase of long-term material assets", for projects of service, study, assistance, consultation, monitoring or other operative expenses.

For the "IPARD" projects, transfers to third parties have been classified as investments, but which in fact have not created assets that meet the conditions for recognition of an asset in the statement of the state's financial position. In this way, an overestimation of the assets of the general government units is established.

-In addition, the audit found 6 investment projects with foreign financing, in the total value of 145,849 thousand ALL, whose disbursements were recorded in a negative value, of which 4 projects worth 16,927 thousand ALL belong to foreign investments in the form of grants, while 2 projects worth 128,922 thousand ALL belong to foreign investments in the form of loans.

From the audit of 8 projects with foreign financing, deficiencies and violations were found, resulting in economic damage in the amount of 8,131 thousand ALL, specifically in the implementation of the contract "Construction of Fier - Vlorë By-Pass" for the liquidation of unfinished works. In addition, the use of public funds without economy, effectiveness and efficiency in the amount of ALL 551,126 thousand was found, specifically 549,877 thousand ALL as a result of deficiencies in the implementation of the works, specifically the postponement of the deadlines for the implementation of the contract, as well as technical solutions not in accordance with the principles of 3-E's in the project "Construction of Fier - Vlorë By-Pass" and 1,249 thousand ALL in the Project "Improvement of the Health System" in the Ministry of Health and Social Protection for operating expenses.

From the audit in the MFE related to the monitoring of the implementation of the budget, it is found that there is a lack of monitoring of the expenses realized according to the products as defined in the Instruction no. 22, dated on 17.11.2016 "On the standard procedures of budget monitoring in the central government units", bringing also the non-evidence of the problem of incompatibility of the nature of the expenses realized with the relevant product. In addition, gender objectives and products have not been monitored in all Line Ministries, and there is a lack of analysis and performance evaluation in the implementation of the budget based on budget redistributions, in order to highlight the possible impact on the performance of the objectives related to them.

-From the audit at the MFE, 26,561 invoices, with a total value of 43,928,109 thousand ALL,

were found to have been submitted to the treasury outside the 30-day deadline. Among the most problematic institutions, we mention the Municipality of Tirana, with 1,643 invoices delivered beyond the deadline, or 6.2% of the total cases ascertained, and the Albanian Road Authority with 690 invoices, or 2.5% of the total cases ascertained. In addition, there are 13 cases of registration and partial payments of invoices which are smaller than the value of the liability incurred, this in order to match the available budget funds. Despite the small number of ascertained cases, ALSAI emphasizes the effect of arrears in conditioning the processing of partial transactions in the system, actions that do not provide certainty about the real value of reported expenses or investments. From the audit of the data of the transactions processed in the FISG system, 42 cases with a value of 541,213 thousand ALL were found exceeding the payment processing and the execution deadline.

-From the intersection of the data made available by the PPA on the procurement procedures initiated in 2021, and the data on the contracts registered in FISG, it was found that there is inconsistency between them. There are contracts in the PPA, which do not result in FISG, and conversely, there are contracts in FISG which do not result in the PPA. In the FISG during 2021, there are 635 unique records of the procurement order document, with a total value of 127.25 billion ALL, from about 26 thousand contracts registered during 2021 (referred to the contract register), as economic entities, with or without access to FISG, do not in any case register the procurement orders with the treasury branches before the start of the procedures in the PPA.

Also, following this problem, it was found that:

-333 out of 635 procurement orders registered in 2021 are related to a contract signed in previous years (2014-2020), so the procurement procedure was completed before the procurement order was registered in FISG and the registration in FISG for these cases is formal and in violation of the legal deadlines;

-49 out of 310 procurement orders for investment expenses (construction, equipment or IT systems) turn out to have been registered on the same day, or in an interval of 1 - 5 days from the date of contract registration, a period that is impossible for the realization of a procurement procedure. In these cases, it seems that the FISG registration queue is formal and worthless for the control and blocking of available funds before the start of the procurement procedure;

-From the audit of the contract database, it was found that out of a total of 25,291 contracts registered in FISG, 13,988 contracts, or 53% of the total number of registered contracts, with a value of 163.2 billion ALL, was registered in violation of the 5-day deadline. The phenomenon of late registration of contracts continues to be widespread this year, both in local and central government units, including independent institutions.

2.3 Reserve fund and contingency

Referring to the law no. 137/2020 "On the budget of 2021", the reserve fund was provided for 4,000 million ALL with intended use: for unforeseen cases of the general government units in the amount of 2,000 million ALL, of which 560 million ALL for the payment of oil workers; for meeting the cost of the elections for the 2021 Assembly in the amount of 1,000 million ALL; for drafting studies of strategic public investment projects in the amount of 1,000 million ALL. With NA no. 4, dated on 05.02.2021, the reserve fund is increased by 1 billion ALL and it reaches the amount of 5 billion ALL, within the legal limit, where Article 3 determines its use, for:

- Unforeseen cases of general government units in the amount of 3,000 million ALL;
- Meeting the cost of the elections for the 2021 Assembly in the amount of 1,000 million ALL;
- For the drafting of studies-designs of strategic public investments in the amount of 1,000 million ALL.

With NA No. 8 dated on 22.03.2021, the reserve fund remains at 5 billion ALL, but is redistributed according to Article 1 for:

- Unforeseen cases of general government units, in the amount of 4,000 million ALL;
- Meeting the cost of the elections for the Assembly of Albania in 2021 in the amount of 1,000 million ALL; and the reserve for design studies is removed. With NA no. 18, dated on 14.04.2021, the reserve fund is increased by 2,000 million ALL and it reaches the amount of 7,000 million ALL, for:
- Unforeseen cases of general government units, in the amount of 6,000 million ALL;
- Meeting the cost of the elections for the 2021 Assembly, in the amount of 1,000 million ALL.

With NA No. 26, dated on 22.06.2021, the reserve fund has finally become 9,000 million ALL, of which 8,000 million ALL for unforeseen cases of the general government units, and without change to the extent of 1,000 million ALL to cover the cost of the elections for the 2021 Assembly. It should be noted that in the budget law and the subsequent amendments with the NA, the legal limit in the planning of the reserve fund of the state budget and contingency up to 3%⁸ has been respected. The contingency for debt risks has been planned in the amount of 4,500 million ALL, expected to be used by the minister responsible for the finance to compensate potential risks from fluctuations in exchange rates or interest rates, with an impact on interest expenses.

A. The reserve fund, as defined above, has changed in value and structure with four NA starting from 02.05.2021 and ending on 06.22.2021: The reserve fund totals 9,000 million ALL with use in the:

- Unforeseen cases of general government, 8,000 million ALL;
- Meeting the cost of the 2021 elections for the Assembly in the amount of 1,000 million ALL.

However, the rapid and frequent changes in the values and structure of the reserve fund indicate an insufficient work of the MFE and other general government institutions in the process of preparing the 2021 budget.

According to the report of the MFE and the audit of ALSAI in this institution, the reserve fund of 8,000 million ALL was used in the amount of 7,745.3 million ALL or 96.8% through 30 Decisions of the Prime Minister, of which 54.7% from the Ministry of Health and Social Protection, 19.2% from the Ministry of Finance and Economy, etc. The destination of the use of the reserve fund was 87.4% for current expenses (operating expenses and internal transfers) and only 9.2% for investments. It is established that, compared to 2020, less funds were used from the state budget reserve in the amount of 5,755 million ALL, but with structural changes, since unlike the

⁸ Law no. 9936, dated 26.06.2008 "The management of the budget system in the Republic of Albania" as amended, Article 5

last year, where 84% were contingency funds, in 2021 there are no used funds for this purpose. For the payment of oil workers, out of the planned 560 million ALL, 461.3 million ALL were used with DCM no. 909, dated on 18.11.2020, 82.4% realized. The fund of 1,000 million ALL for the cost of the parliamentary elections was approved by the CEC with DCM no. 73, dated on 09.02.2021. Analyzing the decision-making for this purpose, it turns out that 4,236.7 million ALL have been granted to the MHSP with ten DCM's, of which 3,473 million ALL with 6 DCM's for the payment of vaccine doses derived from 6 agreements for this purpose. Regarding the allocation of funds for vaccines, the first DCM with no. 32, is dated on 20.01.2021, which has allocated 430 million ALL for the prepayment of vaccine doses and the respective payments from the agreement, and the last one, no. 545, dated on 29.09.2021 for the payment of vaccine doses for the amount of 629.7 million ALL. From the above it follows that:

-First, the reserve fund was used for prepayment, and not for financing expenses as required by the organic law of the state budget;

-Secondly, the agreement for the payments of vaccine agreements is not in the case of expenses which are not known and were impossible to foresee during the budget preparation process, since the pandemic was ongoing, moreover, in January is the advance payment and payment for a signed contract.

In the report of the 2021 draft budget, the MFE stated that *"...it is essential to prepare for the management of the situation created in the future, through the allocation of dedicated budget funds for the year 2021 for the fulfillment of our strategic objective to guarantee health coverage for all citizens, protection of medical personnel and strengthening of epidemiological investigation and timely diagnosis of patients as a measure to prevent the spread of COVID-19"*, but this was not taken into consideration in the drafting of the budget, as the funds for vaccination were received from the reserve fund of the Council of Ministers. For this issue, ALSAI draws attention by asking the responsible state institutions to carry out detailed analyzes and assessments on the threats and potential risk to the efficiency of these public funds intended for this purpose. From the examination of the decisions of the Council of Ministers on the allocation of expenses from the reserve fund, it results that, considerable amounts were used to finance the expenses which are known and could have been foreseen in the process of preparing the budget. Thus, DCM no. 291, dated on 19.05.2021 for additional funds in the amount of 220.8 million ALL for the financing of the project "Improvement of the billing control management module"; DCM no. 577, dated on 06.10.2021 for the amount of 800 million for the financing of rent payments for families left homeless by the natural disaster of the earthquake of November 2019; DCM no. 747, dated on 09.12.2021 for the financing of the SCA project for the digitization of real estate cadastral data in the amount of 652 million ALL, etc. Also, it turns out that there are two institutions, the Ministry of the Interior and the Coordination Center Against Violent Extremism that, with DCM no. 453, dated on 29.07.2021 for changes in DCM no. 826, dated on 26.10.2020 "On the provision of services for the reception and accommodation of unaccompanied children returned from Syria and Iraq" to whom 15.3 million ALL were allocated respectively and for MHSP 1.7 million ALL, which were not used by them. The allocation and use of the reserve fund to finance unplanned operating and investment expenses, as well as arrears of budgetary institutions has deviated from the general principle of the purpose of these funds for unexpected events such as natural disasters, etc., resulting in distortion of the use of the

reserve fund.

B. The contingency fund for debt risks estimated at 4,500 million ALL has not been used. The reserve fund used (since the contingency fund was not used) for the year 2021 constitutes 1.7% of the total value of the realized income, almost unchanged from the planned one.

2.4 Reconstruction fund

According to Article 7 of Law No. 137/2020, dated on 16.11.2020 "On the 2021 budget", the reconstruction fund for coping with the consequences of the 2019 earthquake of 28,000 million ALL is used to cover the costs of approved projects and unfunded projects in 2020, as well as for new projects. With normative act no. 34, dated on 03.12.2021, the reconstruction fund has been increased with the value of 7,000 million ALL, reaching a total of 35,000 million ALL. According to the data of the MFE and the audit in this institution, the funds financed for the reconstruction (including hardening) in LSGUs and CGUs, in total for the year 2021, were in the amount of 38,652,223 thousand ALL, of which 9,881,874 thousand ALL were unspent funds from year 2020, amount which constitutes 25.6% of the actual reconstruction expenses of 2021. In fact, referring to the decision-making of the Council of Ministers which belongs to the period January November 2021, it turns out that the government had already allocated the fund of 38,574,663 thousand ALL, much more than the forecast in the budget law of 28,000,000 thousand ALL and without approving the legal changes to the increase in the budget with NA no. 34, dated on 03.12.2021. In Article 7 of Law No. 137/2020 "On the Budget of 2021" the reconstruction fund is foreseen, in the amount of 28,000 million ALL, which increases the expenditure limits for each ministry and institution at the program level, as well as the transfer limits unconditionally for local government units. Referring to the law "On Local Self-Government Finances", the unconditional transfer is given from the state budget to the local self-government units, without condition, without interest and without right of return, meanwhile, in the budget law of 2021, these transfers are conditional in the allocation of funds for the reconstruction of buildings that have suffered damage from the earthquake. In addition to the above, although the law on local government finances stipulates that the unconditional transfer is distributed according to a formula with defined criteria, the Reconstruction Funds of the local self-government have been distributed with DCM, increasing the unconditional transfer for these local government units, without using the relevant legal criteria.

Also, from the audit in the MFE related to the reconstruction funds, it has been established that in the period 2020-2021, a total of 67,000,000 thousand ALL of funds available for this purpose are planned with the annual laws and the subsequent changes with the NA, while a total of 97,573,357 thousand ALL was distributed with issued DCMs. Referring to Table 4 "Fiscal indicators of the consolidated budget 2018 - 2023" of law no. 137/2020 "On the budget of 2021", as amended, it is concluded that there are no planned funds for the reconstruction for the years 2022 and 2023. From the above, it is concluded that the value of the funds distributed with DCM until the end of the year 2021, is above the determined value in the budget law of 2020 and 2021 for the estimated reconstruction funds of 30,573,357 thousand ALL, and there are no estimated funds for the following years. These actions create the conditions for the creation of arrears, with the effect of increasing the public debt as a result of non-compliance with the legal limits approved for expenditures in the current budget year and the approved limits for future budget years. From the audit in the MFE, as well as referring to the table of

consolidated fiscal indicators 2021, it results that the reconstruction fund was realized in the amount of 29,520,610 thousand ALL, or in the amount of 84.4%, of which, the expenses for the central government constitute 39% of the realization, while local government expenses 61%. We emphasize that unspent funds in 2020 and carried over in 2021 are in the amount of 9,881,874 thousand ALL, which constitute 33% of the funds spent for reconstruction in 2021. The expenses for reconstruction in 2021 are 77% higher than those realized in 2020. From the audit in the MFE, it appears that during 2021, some DCMs for the financing of reconstruction projects, have also determined as a source of financing the freezing of funds from slow-moving reconstruction projects. For the year 2021, the amount frozen from the projects with slow progress and used as a source of financing for the reconstruction projects as a whole is 4,467,982 thousand ALL. The use of the freezing of funds as a form of financing for investment projects is not based on legal criteria, since the organic budget law and the budget law of the year with subsequent amendments do not provide for freezing for projects with slow progress, as a way to allocation of funds between investment projects. Since the budget expenses for the housing of families whose houses were damaged by the earthquake are related to the progress of the reconstruction projects, the audit at the MFE has shown that the payments made in 2020 are in the total amount of 2,924,253 thousand ALL, while in 2021, rents were subsidized in the total amount of 2,984,836 thousand ALL. From the above, it results that from the state budget in 2021, even though the funding for the reconstruction projects has increased, due to the slow progress in the implementation of the works and exceeding the deadline for the completion of this process, the expenses for subsidizing rents of families have increased in the amount of 60,583 thousand ALL, further increasing the total cost of the reconstruction process.

From the audit of the **Albanian Development Fund (ADF)**, in the capacity of the implementing unit for the Reconstruction Program and its components for the reconstruction of educational facilities; individual dwellings, inside and outside the new areas for development, the construction and reconstruction of public infrastructure as well as any other intervention, in function of the reconstruction of these individual dwellings, outside the new areas for development; the construction and reconstruction of public infrastructure, in the new areas announced for forced development; as well as the reconstruction of residential units in damaged buildings (palace) in the new areas for development and reconstruction on the same land, it has resulted that the Budget of the Reconstruction Program for the year 2021 has reached the total value of 8,642,000 thousand ALL , divided according to components, where most of it belongs to the reconstruction of educational facilities, as well as the budget transferred from 2020 in the amount of 3,084,328 thousand ALL with the corresponding division according to components, where most of them are for design/collective housing. During the year 2021, the budget for the ADF Reconstruction Program has undergone several changes, which, divided by components, are reflected in the table below.

Table no. 25 Changes to the FSHZH reconstruction program

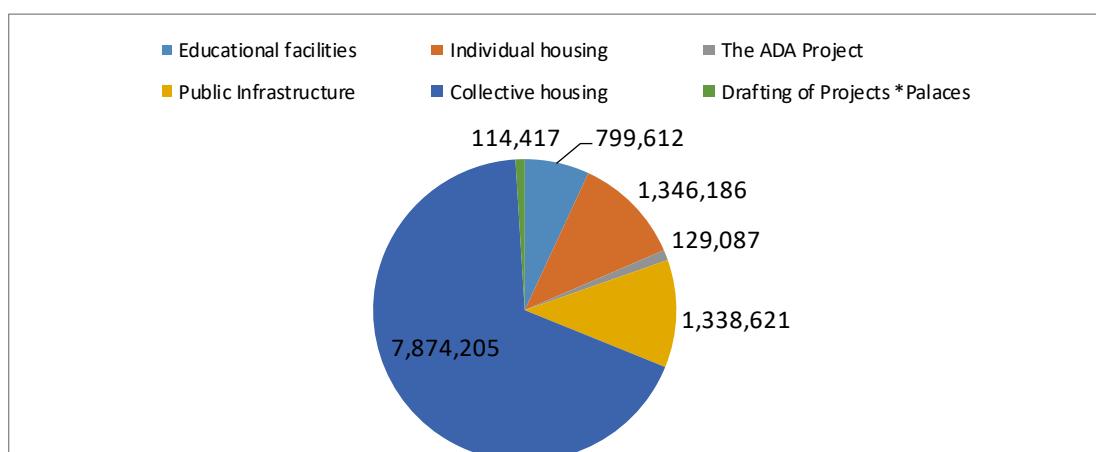
In thousand ALL

| No | Facility | The budget transferred from 2020 | Initial Budget 2021 | DCM no. 774, dt. 15.12.2021 Letter no. 7986/1, dt. 19.05.2021 | DCM no. 722, dt. 15.12.2021 | DCM no. 571 dt. 06.10.2021 | DCM no. 481, dt. 30.07.2021 DCM no. 853, dt. 29.12.2021 | DCM no. 405, dt. 30.06.2021 DCM no. 423, dt. 08.07.2021 DCM no. 527, dt. 22.09.2021 DCM no. 771, dt. 15.12.2021 | 2021 Budget after the changes |
|--------------|--------------------------------|----------------------------------|---------------------|--|-----------------------------|----------------------------|--|--|-------------------------------|
| 1 | Educational facilities | 877,699 | 3,996,620 | (4,079,707) | | | | | 796,612 |
| 2 | Individual housing | 683,186 | 500,000 | | 163,000 | | | | 1,346,186 |
| 3 | The ADA Project | - | - | | | 129,087 | | | 129,087 |
| 4 | Public infrastructure | 60,999 | 897,567 | | | | 380,055 | | 1,338,621 |
| 5 | Collective housing | 1,348,027 | 274,878 | | | | | 6,251,301 | 7,874,205 |
| 6 | Drafting of projects (palaces) | 114,417 | - | | | | | | 114,417 |
| Total | | 3,084,328 | 5,669,064 | (4,079,707) | 163,000 | 129,000 | 380,055 | 6,251,301 | 11,597,128 |

Source: ADF data processed by ALSAI

The 2021 budget after the transfer and the undergone changes has become 11,597,129 thousand ALL, which compared to the budget opened at the beginning of 2021, has been increased by 2,843,738 thousand ALL.

Chart no. 12 Structure of the reconstruction budget by component



Source: ADF data processed by ALSAI

For the year 2021, the Reconstruction Program budget was realized in the amount of 11,366,535 thousand ALL, or 98% against the planned budget. The realization of the budget divided by the components of the Program is presented as follows.

Table no. 26 Realization of the reconstruction program by components

In thousand ALL

| Nr. | Facility | Planning Year 2021 | Realization Year 2021 | Percentage of realization % |
|-------|-------------------------------------|--------------------|-----------------------|-----------------------------|
| 1 | Educational facilities | 794,612 | 781,521 | 98% |
| 2 | Individual Housing/ The ADA Project | 1,475,273 | 1,346,186 | 91% |
| 3 | Public Infrastructure | 1,338,621 | 1,338,621 | 100% |
| 4 | Collective Housing/ Projection | 7,988,623 | 7,900,207 | 99% |
| Total | | 11,597,128 | 11,366,535 | 98% |

Source: ADF data processed by ALSAI

During the implementation of the Program, for the period 2020 - 2022, a total of 15 "Framework Agreement" procedures were followed and developed, which were oriented in four main directions:

- Reconstruction of individual dwellings and facilitating infrastructure for them;
- Reconstruction of educational facilities;
- Construction and reconstruction of public infrastructures;
- Reconstruction of collective housing (residential building units).

The Framework Agreements within each direction are conceived divided according to need into the following groups: Design Service; Implementation of works; Supervision Service; Validation Service. Pursuant to these agreements, the procedures of the respective mini-competitions/second phase of the procedure have been developed. From the review of the information made available for 2021, it is concluded that the ADF has concluded a total of 50 contracts of the first phases "Framework Agreements", namely:

- 2 contracts for design services;
- 26 contracts for implementation of works;
- 16 contracts for supervision services;
- 6 contracts for inspection service.

From the audit carried out in the ADF on the implementation of the contracts of the reconstruction process, the ALSAI has found several irregularities, which mainly consist of:

-The difference in volume for declared works performed in 5 cases where it was recommended to take measures to collect the total value of 1,712 thousand ALL without VAT from the responsible operators, evidenced case by case;

-Exceeding the deadlines specified in the respective contracts in 9 cases, for which the ADF has been recommended to follow all the necessary administrative procedures and all levels of judgment to collect the value of the penalty for exceeding the deadlines, in total of 140,064 thousand ALL without VAT from responsible operators.

From the audit carried out in the **Ministry of Defense**, in relation to the works for the construction of houses and apartments damaged by the earthquake, it was found that, for the project 18AZ901 "Managed natural disasters", in the budget of the apparatus of this ministry, funds were not approved according to Budget Law. The funds for this project have passed under the administration of NACP, where according to the MTBP, about 280,073,000 thousand ALL are planned for 2021, which would cover the investments in the process. Pursuant to NA no. 26 date 22.06.2021, in the program 10910 "Civil Emergencies" of the project 18AZ901, funds were reduced in the amount of 100,000 thousand ALL. From the analysis of the progress of payments for these contracts, initially concluded with a deadline on 31.12.2019, and then with a revised

deadline on 31 May 2022, until the end of the audit period, it is concluded that the works for the construction of housing have not been completed and apartments damaged by the earthquake, which converted into unpaid payments are considered to be at least 149,681 thousand ALL.

2.5 Concessions/PPP and fiscal risks – Budgetary impact

Contingent obligations (indirect), which are mainly related to obligations related to PPPs, are considered an important element of fiscal risks that may cause deviations from budget forecasts, related to macroeconomic assumptions and developments, government revenues, general expenses, debt management, etc. For this, the MFE has implemented a risk matrix for monitoring and assessing fiscal risks during 2021, and which is mainly related to Concessions, as well as Energy Sector Enterprises, Water Supply and Sewerage Sector Enterprises, Monitoring of the obligations of arrears of Other contingent liabilities.

a) Concession contracts/PPPs with budget support

According to the MFE Report and the audit of the ALSAI in this institution, it is established that for the year 2021, out of 13 concessionary contracts/PPP with budget support, payments have been made in 12 of them. The final payment plan for the concession contracts was in the amount of 11,822,862 thousand ALL, while the realized expenses are in the amount of 11,517,745 thousand ALL, or 97.4%. Referring to the above data, it results that the total amount of annual net payments, for concession contracts or public private partnerships (PPP), in 2021 will account for 2.89% of the total actual tax revenue of 2020⁹, thus respecting the limit of 5 percent, defined in article 4/2 of the OBL.

The total payments made for concessionary contracts/PPP with budget support constitute 1.9% of total expenses for 2021, 11.7% of total capital expenses, and compared to 2020, 1,783,627 thousand ALL more were made, or +18%. Detailed according to the respective contracts, the schedule and payments for the concessionary/PPP contracts currently in force are presented in the table below.

Table no. 27 Detailed data for concession contracts/PPP -2021

In thousand ALL

| Contracting Authority | No | Name of the PPP Contract | Start year | End year | 2021 | | |
|---------------------------------------|----|--|------------|----------|--------------|--------------|-----------|
| | | | | | Initial plan | Changed plan | The fact |
| Ministry of Infrastructure and Energy | 1 | Construction, operation and transfer of the incinerator for the processing of urban waste of the Municipality of Elbasan | 2014 | 2020 | 50,000 | 50,000 | 40,292 |
| | 2 | Construction, operation and transfer of the incinerator for the processing of urban waste of the Municipality of Fier | 2016 | 2023 | 752,771 | 752,771 | 690,040 |
| | 3 | Construction and Operation of Arbri Road | 2018 | 2031 | 3,375,100 | 3,393,100 | 3,392,727 |

⁹ Tax revenues for 2020 were 398.66 billion ALL

| | | | | | | | |
|---|-------|--|------|------|------------|------------|------------|
| | | Construction, Operation, Maintenance | 2018 | 2031 | 3,180,000 | 3,180,000 | 3,180,000 |
| | | Technical Opposition | 2020 | 2020 | 170,000,0 | 188,000 | 187,694 |
| | | Supervision | 2018 | 2022 | 25,100 | 25,100 | 25,033 |
| | 4 | Construction, Operation and Maintenance of the Milot-Morinë Road | 2017 | 2047 | 810,259 | 792,259 | 790,027 |
| | | Hidden Defects | | | | | |
| | | Supervision | 2017 | 2022 | 70,000 | 52,000 | 51,507 |
| | | Subvention | 2019 | 2032 | 740,259 | 740,259 | 738,520 |
| | 5 | Construction and Operation of Orikum Yacht Harbor - Dukat | | | 393,979 | 48,029 | 47,069 |
| | | Design, Construction, Maintenance | 2020 | 2033 | 311,879 | 579 | |
| | | Independent consulting services for contract implementation | 2020 | 2020 | 80,000 | 45,350 | 44,972 |
| | | Technical Opposition | 2020 | 2020 | 2,100 | 2,100 | 2,097 |
| | 6 | Construction and Operation of Milot - Balldren Road | | | 65,000 | 3,100 | 3,100 |
| | | Construction and operation | 2020 | 2033 | | | |
| | | Supervision of works | 2020 | 2020 | 50,000 | - | |
| | | Technical Opposition | 2020 | 2020 | 15,000 | 3,100 | 3,100 |
| Ministry of Finance and Economy | 1 | Customs Scanning Service | 2013 | 2030 | 1,580,698 | 1,660,686 | 1,660,686 |
| Ministry of Health and Social Protection | 1 | Concession/PPP Basic control of the population (check up) | 2015 | 2025 | 876,090 | 366,090 | 219,021 |
| | 2 | Concession/PPP - Providing customized set of surgical instruments. | 2016 | 2026 | 1,704,982 | 1,564,982 | 1,564,982 |
| | 3 | Concession/PPP - Provision of dialysis service | 2016 | 2026 | 779,000 | 754,000 | 754,000 |
| | 4 | Provision of hospital laboratory services | 2020 | 2030 | 1,280,444 | 1,137,845 | 1,106,402 |
| Tirana Municipality/Ministry of Education, Sports and Youth | 1 | Construction of Pre-university Education Schools in the Municipality of Tirana | 2018 | 2025 | 0 | 0 | 0 |
| Ministry of Infrastructure and Energy / Tirana Municipality | 1 | The incinerator of Tirana | 2017 | 2047 | 1,050,000 | 1,300,000 | 1,249,399 |
| | | | | | 450,000 | 700,000 | 651,626 |
| | | | | | 600,000 | 600,000 | 597,773 |
| 13 | Total | | | | 12,718,323 | 11,822,862 | 11,517,745 |

Source: Ministry of Finance and Economy data processed by ALSAI

In detail, the audit related to the concessions/PPP with budget support including the plan, actual payments and registrations in FISG is presented as follows:

1. Construction, operation and transfer of the incinerator for the processing of urban waste of the Municipality of Elbasan.

This concession project is planned in MTBP 2021-2023 according to the following table:

Table no. 28

| Product | Energy production plant from waste in Elbasan | Project Code according to the list of investments | M064078 | |
|----------------------|---|---|---------|------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 586,770,000 | 50,000,000 | 0 | 0 |

The concessionary/PPP project for the Elbasan incinerator is detailed in the investment funds with project code "M064078" and has not undergone any changes in decrease or increase throughout the year according to the following table:

Table no. 29

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| | July | August | September | October | November | December |
| | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |

The payments made during the year 2021 for this concession contract are in the amount of 40,292 thousand ALL, with the description "MIE incinerator expenses letter 23/2, date 23.02.2021, invoice 1/2021, date 02.08.2021, contract status continuation 11026/7, dated 16.12.2014, DCM no. 907 dated 17.12.2014, act - finding 25.2.2021", according to an expenditure order registered in FISG carried out by the apparatus of the Ministry of Infrastructure and Energy.

2. Construction, operation and transfer of the incinerator for urban waste processing of Fier Municipality.

This concession project is planned in MTBP 2021-2023 according to the following table:

Table no. 30

| Product | Energy production plant from waste in Fier. | Project Code according to the list of investments | M064079 | |
|----------------------|---|---|------------|------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 755,500,000 | 752,771,000 | 50,000,000 | 0 |

The concessionary/PPP project for the Fier incinerator is detailed in the investment funds with project code "M064079" and has not undergone any changes in decrease or increase throughout the year according to the following table:

Table no. 31

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 752,771 | 752,771 | 752,771 | 752,771 | 752,771 | 752,771 |
| | July | August | September | October | November | December |
| | 752,771 | 752,771 | 752,771 | 752,771 | 752,771 | 752,771 |

3. Construction and Operation of Arbri Road

The contract of this concession was signed on 16.03.2018, in the amount of 33.6 billion ALL without VAT or ALL 40.32 billion with VAT. This concession project is planned in the MTBP 2021-2023, according to the following table:

Table no. 32

| Product | Concession contract "For the construction, operation and maintenance of the Arbri road PPP | Project Code according to the list of investments | 18BA201 | |
|----------------------|--|---|---------------|---------------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 2,520,000,000 | 3,180,000,000 | 2,940,000,000 | 2,844,000,000 |

This project is detailed in the investment funds with project code "18BA201" and has undergone changes in decrease and increase throughout the year according to the following table:

Table no. 33

| Budget value by month (000/ALL) | January | February | March | April | May | June |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 3,180,000 | 3,180,000 | 3,180,000 | 3,180,000 | 3,180,000 | 3,180,000 |
| | July | August | September | October | November | December |
| | 3,180,000 | 3,180,000 | 3,180,000 | 3,180,000 | 3,180,000 | 3,180,000 |

The payments made during the year 2021 for this concession contract are in the amount of 3,180,000 thousand ALL, according to four expenditure orders registered in FISG made by the apparatus of the Ministry of Infrastructure and Energy, while there are cases of partial payments made according to the description of payment. The supervision of the concession contract for the improvement, construction, operation, and maintenance of Arbri Road was contracted on 09.11.2018 according to the description in the payments made in FISG.

Table no. 34

| | 2020 | 2021 | 2022 | 2023 |
|----------------------|-------------|-------------|-------------|------|
| 18BA209 | Budget | Plan | Plan | Plan |
| Total cost (000/ALL) | 169,110,000 | 170,000,000 | 115,000,000 | 0 |

Table no. 35

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 170,000 | 170,000 | 170,000 | 170,000 | 170,000 | 170,000 |
| | July | August | September | October | November | December |
| | 170,000 | 170,000 | 170,000 | 170,000 | 170,000 | 188,000 |

The detailed payment plan in the amount of 140,000 thousand ALL has increased in December 2021. The payments made during 2021 for this project are in the amount of 187,695 thousand

ALL, according to five expenditure orders registered in FISG carried out by the apparatus of the Ministry of Infrastructure and Energy, while there are cases of summarized three-monthly payments made.

- Technical opposition

Table no. 36

| 18BA211 | 2020 | 2021 | 2022 | 2023 |
|----------------------|-----------|------------|------|------|
| | Budget | Plan | Plan | Plan |
| Total cost (000/ALL) | 2,000,000 | 25,100,000 | 0 | 0 |

The initial plan and changes throughout 2021 are presented:

Table no. 37

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 25,100 | 25,100 | 25,100 | 25,100 | 25,100 | 25,100 |
| | July | August | September | October | November | December |
| | 25,100 | 25,100 | 25,100 | 25,100 | 25,100 | 25,100 |

During the year 2021, the payment for the technical opposition for the Institute of Construction was also made in the amount of 25,033 thousand ALL, which according to the description of the payment in the payment module in FISG belongs to the arrears from 2018 as follows:

-MIE technical opposition, implementation project, letter 1234/13, dated on 05.08.2020, request 1234/6 dated on 07.08.2020, agreement 1234/8 dated on 29.07.2020, letter 1234/9 dated on 30.07.2020, invoice 370(88778720), dated on 03.08.2020;

-MIE closing payment technical opposition, Arbri Road difference, agreement 7080/1 dated on 11.05.2018, document 119/3 dated on 14.05.2020, invoice 95 (48570795) dated on 14.05.2018.

4. Construction, Operation and Maintenance of the Milot-Morina Road

Planning in MTBP 2021-2023 is presented in the following table:

Table no. 38

| Product | Subsidy of the concession contract "For the construction, improvement, use, maintenance and rehabilitation of the Milot - Morine highway" | Project Code according to the list of investments | 18BA203 | |
|----------------------|---|---|-------------|-------------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 740,259,000 | 740,259,000 | 740,259,000 | 740,259,000 |

The concessionary/PPP project for subsidizing the Milot - Morin Road is detailed in the investment funds with the project code "18BA203" which has not changed throughout the year as follows:

Table no. 39

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 740,259 | 740,259 | 740,259 | 740,259 | 740,259 | 740,259 |
| | July | August | September | October | November | December |
| | 740,259 | 740,259 | 740,259 | 740,259 | 740,259 | 740,259 |

The payments made during 2021 for this project are in the amount of 738,521 thousand ALL, according to two expenditure orders registered in FISG made by the apparatus of the Ministry of Infrastructure and Energy. Supervision of the concession contract for the construction, operation, maintenance, rehabilitation of the Milot-Morina highway.

Table no. 40

| M063842 | 2020 | 2021 | 2022 | 2023 |
|----------------------|------------|------------|------------|------|
| | Budget | Plan | Plan | Plan |
| Total cost (000/ALL) | 73,000,000 | 70,000,000 | 2,2384,000 | 0 |

The concessionary/PPP project for the supervision of the Milot - Morina Road has been detailed in the investment funds with the project code "M063842" in the amount of 70,000 thousand ALL, which was changed to a decrease in December 2021 according to the following table:

Table no. 41

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 |
| | July | August | September | October | November | December |
| | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 | 52,000 |

5. Construction and Operation of Orikum - Dukat Yacht Port

In the MTBP 2021-2023, this concession project presents the payment plan as follows:

Table no. 42

| Product | Construction operation of and the Orikum-Dukat Road | Project Code according to the list of investments | 18BA213 | |
|----------------------|---|---|---------------|-------------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 0 | 311,879,000 | 1,003,792,000 | 959,400,000 |

The detailed budget plan for the project with code "18BA213" at the beginning of 2021 and changed throughout the year according to the relevant months is presented in the following table:

Table no. 43

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 311,879 | 311,879 | 311,879 | 298,579 | 298,579 | 298,579 |
| | July | August | September | October | November | December |
| | 298,579 | 298,579 | 298,579 | 298,579 | 579 | 579 |

No payment was made during 2021.

Independent consulting services for contract implementation.

Table no. 44

| Product | Construction and operation of the Orikum-Dukat Road | Project Code according to the list of investments | 18CD701 | |
|----------------------|---|---|------------|------------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 500,000 | 80,000,000 | 73,000,000 | 80,000,000 |

The detailed budget plan for the project with the code "18CD701" throughout the year 2021 according to the relevant months is presented in the following table:

Table no. 45

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 80,000 | 80,000 | 80,000 | 80,000 | 80,000 | 80,000 |
| | July | August | September | October | November | December |
| | 52,850 | 52,850 | 52,850 | 52,850 | 52,850 | 45,350 |

The payments made during 2021 for this project are in the amount of 44,972 thousand ALL, according to seven expenditure orders registered in FISG made by the apparatus of the Ministry of Infrastructure and Energy.

-Supervision of the concession contract for the improvement, construction, operation and maintenance of the Orikum-Dukat Road (Saint Eliza Bridge) in the MTBP 2021-2023, this project does not provide for a payment plan and no payment has been made.

- Technical opposition for the concession contract for the improvement, construction, operation and maintenance of the Yacht Port - Orikum Dukat By Pass (Saint Elise Bridge).

The detailed budget plan for the project with the code "18BA215" throughout the year 2021 according to the relevant months is presented in the following table:

Table no. 46

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 |
| | July | August | September | October | November | December |
| | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 |

The payments made during 2021 for this project are in the amount of 2,097 thousand ALL, according to a spending order registered in FISG made by the apparatus of the Ministry of Infrastructure and Energy.

6. Construction and Operation of Milot - Balldren Road

In the MTBP 2021-2023, this concessionary project presents the payment plan as follows:

Table no. 47

| Product | Concessionary Contract/PPP, for the design, construction and maintenance of the Milot - Balldren road segment | Project Code according to the list of investments | 18BA208 | |
|------------|---|---|-------------|-------------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost | 0 | 0 | 212,000,000 | 869,364,000 |

| | | | | |
|-----------|--|--|--|--|
| (000/ALL) | | | | |
|-----------|--|--|--|--|

For the year 2021, there is no detail; therefore no payment has been made. Supervision of works for the construction and operation of the Milot - Balldren road. In the MTBP 2021-2023, this concessionary project presents the payment plan as follows:

Table no. 48

| Product | Supervision of the concession contract for the improvement, construction, operation and maintenance of the Milot - Balldren road | Project Code according to the list of investments | | |
|----------------------|--|---|-------------|------------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 0 | 50,000,000 | 100,000,000 | 91,580,000 |

The detailed budget plan for the project with code "18BA209" at the beginning of 2021 and changed throughout the year according to the relevant months is presented in the following table:

Table no. 49

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| | July | August | September | October | November | December |
| | 50,000 | 50,000 | 50,000 | 50,000 | - | - |

No payment has been made for 2021.

- Technical opposition for the concession contract for the improvement, construction, operation and maintenance of the Milot - Balldren road. In the MTBP 2021-2023, this project is presented as follows.

Table no. 50

| Product | Technical opposition for the concession contract for the improvement, construction, operation and maintenance of the Milot - Balldren road | Project Code according to the list of investments | | |
|----------------------|--|---|------|------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 0 | 15,000,000 | 0 | 0 |

The detailed budget plan for the project with code "18BA212" at the beginning of 2021 and changed throughout the year according to the relevant months is presented in the following table:

Table no. 51

| Budget value by month (000/ ALL) | January | February | March | April | May | June |
|----------------------------------|---------|----------|-----------|---------|----------|----------|
| | 15,000 | 15,000 | - | 15,000 | 15,000 | 15,000 |
| | July | August | September | October | November | December |
| | 15,000 | 15,000 | 15,000 | 15,000 | - | 3,100 |

The payments made during 2021 for this project are in the amount of 3,100 thousand ALL, according to an expenditure order registered in FISG made by the apparatus of the Ministry of Infrastructure and Energy.

7. Customs Scanning Service

Planning in MTBP 2021-2023 phase II, since phase III has not been published, it is presented:

Table no. 52

| Product | Scanning service | | | |
|----------------------|------------------|---------------|---------------|---------------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 0 | 1,580,697,572 | 1,628,118,499 | 1,676,962,054 |

The detailed budget plan for the project with the code "91005AE" at the beginning of 2021 was opened at the value of 1,580,698 thousand ALL and during the year, specifically on 18.08.2021 it increased with the value of 74,853 thousand ALL and on 15.12.2021 it increased to the value of 5,135 thousand ALL, a total increase of 79,988 thousand ALL. The payments made in 2021, according to FISG, result in the amount of 1,660,686 thousand ALL according to 65 expenditure orders registered on account of the 2021 budget. From the paid value for this contract, it is established that for 5 expenditure orders, in the amount of 128,466 thousand ALL belong to the 2020 arrears, which were paid using the approved budget for 2021.

8. Construction of Pre-University Education Schools in the Municipality of Tirana

For this concession contract, no investment project is registered and there is no detailed budget. Currently, only LOT 1 and 4 (out of four anticipated lots) of the concession contracts signed on 17.10.2018 between MES and the Municipality of Tirana with UEO in the amount of 2,364,096 thousand ALL, in which the commitment to pay this amount has been undertaken for seven years from the moment of delivery. It does not result that this contract is registered in the contracts module.

9. Tirana incinerator

In the MTBP 2021-2023, this concession project, only for the part financed by MIE in the urban waste program, presents the payment plan as follows:

Table no. 53

| Product | Energy production plant from waste in Tirana | | | |
|----------------------|--|-------------|-------------|-------------|
| | 2020 | 2021 | 2022 | 2023 |
| Total cost (000/ALL) | 0 | 600,000,000 | 200,000,000 | 200,000,000 |

The detailed value at the beginning of the year for this concession project is presented in the amount of 600,000 thousand ALL and revised upward in the amount of 700,000 thousand ALL, final plan. The payments made throughout the year 2021 according to FISG result in 14 payments in the amount of 651,626 thousand ALL from the MIE budget, the urban waste program and the rest of 597,773 thousand ALL from the Tirana Municipality's own income. It is established that arrears for the months of October-December 2020 in the amount of 139,094 thousand ALL were paid in five cases using the approved budget for 2021, creating new obligations carried over to the following years. The highest level of payments for the 12 concession contracts/PPPs, referred to the year 2021, was realized in December, with about

2,270,000 thousand ALL, which constitute 19.7% of the total annual payments, where only payment of 932,000 thousand ALL for the contract "For the improvement, construction, operation and maintenance of Arbri Road" constitutes 41% of the total payments made this month. From the audit in MFE for concessionary contracts/PPPs it is found that:

-the payments made for the past years constitute an increased risk for the creation of new arrears for the following years;

-during 2021, liabilities from previous years were repaid in the amount of 292,593 thousand ALL, which constitute 2.5% of the total expenses for the concession contracts/PPPs of 2021, specifically:

- Construction and Operation of the Arbri Road for the technical opposition 25,033 thousand ALL due in 2018;
- Tirana incinerator project obligations for the month of October-December 2020 in the amount of 139,094 thousand ALL;
- Concession of scanning in customs duties for the month of December 2020 in the amount of 128,466 thousand ALL. The Tirana incinerator project and the customs scanning concession include making payments based on the level of service provided, conditional on the demand for this service. The realization of the service beyond the budgeted value has caused the creation of arrears for the current year and at the same time their carryover to the following year.
- In one case, the contractual obligations are not budgeted, nor registered as an obligation in FISG, specifically for the school construction project in the Municipality of Tirana, the same finding as last year, where the signed contract was not registered and not has been budgeted contrary to the provisions in the standard budget implementation instruction.

From the audit of the Compulsory Health Care Insurance Fund (CHCIF) related to three concession contracts, it was found as follows:

1. Concession/PPP - Provision of dialysis service

The concession contract "For the provision of hemodialysis" is exercised in 5 regional hospitals: Shkodër, Lezhë, Elbasan, Korçë and Vlorë. CHCIF finances these services based on financing contract no. 710, dated on 10.02.2016, concluded following the above concession contract. In this contract, the projected number of patients is defined in 156 sessions per year (13 sessions per month), with a price of 11,203 ALL per session. The method of payment is based on the level of service provided, guaranteeing at the same time a minimum according to the projections in the STD, which are part of the concession contract. From the audit at CHCIF, billing for incomplete services, as well as payment of cases that are above the projection in specific regions, was found. For the year 2021, according to data made available by the CHCIF, 60,719 dialysis sessions were offered by PPP. The number of unrealized sessions for the dialysis service provided by the contractor, compared to the monthly projection according to the concession contract, is 6,248 dialysis sessions. The non-realization of the number of dialysis sessions according to the monthly projection is mainly in the dialysis centers of Shkodër and Vlorë, and in some months in the dialysis centers of Lezhë and Shkodër, this is due to the lower number of patients than the number of monthly patients according to the projection. The financial effect

for the billing of services not performed for 6,248 dialysis sessions not carried out is calculated in the amount of 69,996 thousand ALL. Also, 1,447 invoiced dialysis sessions were performed above the projection defined in the concession contract for the provision of the service, since the level of the benefited monthly service was above the projected values. Exceeding the number of dialysis sessions over the planned monthly projection in 2021 belongs to the Elbasan and Lezhë Dialysis Center. The financial effect for the invoicing for services above the projection is calculated in the amount of 16,211 thousand ALL. From the analysis of the realization data and the initial projections, it is found that the drafting of the projections is not in accordance with the real needs for the performance of the service, which is reflected year after year, and this is accompanied by not revising the projections or changing the way of invoicing according to the actual service, bringing negative financial effects in the budget administration. Referring to the wording of the financing contract regarding payments, it is also provided for payment for unfulfilled cases and the consideration as economic damage of the payment of cases when it is proven that the claimed services have not been performed. In this way, the payment of unfinished cases which exceed the projection presented in the Standard Concession Documents, part of the concession contract, represent ineffective use of budget funds.

According to the data referred by the Economic Directorate of CHCIF, it results that in relation to the payments made for the dialysis service with PPP, they are in the amount of 747,195 thousand ALL, including the benefit period of the service from December 2020 to November 2021, compared to the corresponding revised plan of 753,977 thousand ALL. Compared with the MFE data for 2021 on concessions, it turns out that 6,805 thousand ALL more were reported by the ministry (754,000 thousand ALL by the MFE and 747,195 thousand ALL by the CHCIF).

2. Concession/PPP - Providing customized set of surgical instruments.

This service is offered within the framework of the PPP contract "Integrated services for the supply of customized sets of sterile surgical instruments and supply of sterile medical materials", signed on 10.12.2015 with a 10-year term. Compared with the budget plan at the beginning of the year and the final one, it is established in advance that the service was received within the budgeted value. This is because, according to DCM no. 20 dated on 20.01.2020 and the evidence on the budget plan, the initial plan was in the amount of 1,704,982 thousand ALL, while the only revision happened with DCM no. 702 dated on 18.11.2021, where a reduced value of 140,000 thousand ALL is reflected, with a final plan in the amount of 1,564,982 thousand ALL. It should be noted that keeping the sterilization service under control within the approved budget conditions the level of service provided for surgical intervention in the health of the population. From the audit at the CHCIF, it was established that, for the year 2021, the service was performed within the projection of 63,000 thousand interventions, or it was performed in the amount of 1,550,245 thousand ALL. From the comparison of the MFE and the CHCIF data related to the total annual expenses, it results that the ministry reports 14,737 thousand ALL more than those actually carried out by the Fund: MFE reporting is 1,564,982 thousand ALL while in the CHCIF it is 1,550,245 thousand ALL. From the verification of the documentation and data administered on the implementation of this concession contract, it has been established that the number of instruments has changed in an unsubstantiated way for some of the sets from year to year; there is no exact protocol according to interventions/sets, there is a much greater number of diagnoses/interventions compared to the number of used

sets, three levels of complexity have been applied to the same interventions/sets, etc., resulting in difficulties in monitoring, as well as difficulties in respecting the budget ceiling, with an impact on the imbalance in the budget and limitations in interventions for patients. Also, from the processing of the data administered for the year 2021, it is found that, for the same surgical intervention, performed in the same hospital or another hospital, billing is performed according to different complexities, and consequently different prices. This way of applying the level of complexity during the implementation of the contract causes additional financial consequences, compared to the effect of using the lowest possible complexity, related to the corresponding price. In this framework, there were 21,174 cases in which the surgical intervention was classified as medium complexity and for the same surgical interventions, in some cases it was billed as high complexity, as well as 4,725 cases in which it was billed for high complexity, although at least once the same surgical intervention was billed as medium complexity. If medium complexity were used for these interventions, the financing of this contract would be reduced by 87,318 thousand ALL with VAT. Also, a total of 16,710 cases are presented in which the surgical intervention was classified as low complexity and for the same surgical interventions, in some cases it was billed as high complexity or medium complexity. The audit found that there are 5,924 cases in which it was billed for high complexity and 8,057 cases in which it was billed for medium complexity, although at least once the same intervention was billed as low complexity. If the low level of complexity was used for these interventions, the financing of this contract would be reduced by the amount of 81,215 thousand ALL with VAT.

3. On the concession of laboratories

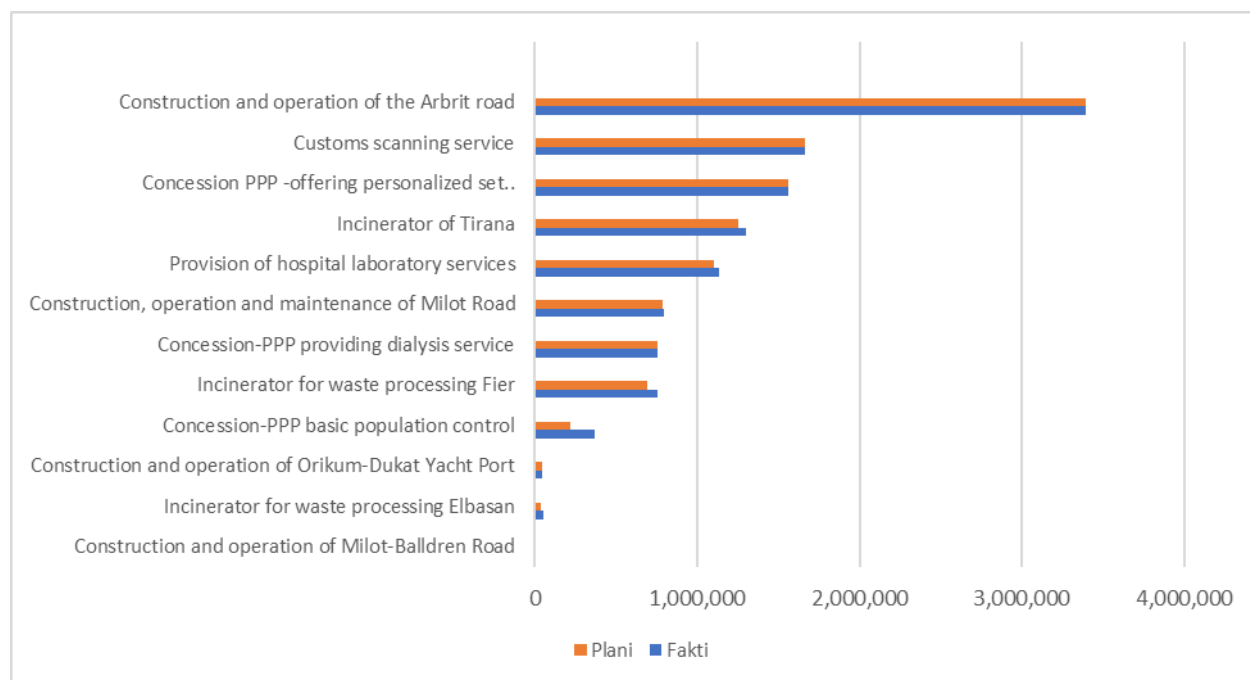
In relation to the concession of laboratories, the implementation of the concession contract has started throughout the year 2021 in university hospitals and regional hospitals and the two municipal hospitals which are determined according to the concession contract/PPP. The initial value of the planned expenses for the PPP of the laboratories was in the amount of 1,280,444 thousand ALL, and with the subsequent changes, the final plan for 2021 was set at 1,137,845 thousand ALL, decreasing by 142,599 thousand ALL. According to the data from the CHCIF, it results that the expenses realized are 1,106,402 thousand ALL, and there are no arrears.

4. Concession/PPP - Basic control of the population (checkup)

The provision of the Basic Medical Check-up package is carried out based on DCM no. 185, dated on 02.04.2014 "On the determination of the method of carrying out the basic medical check-up for citizens of the age group 35-70 years old", amended by DCM, No. 721, dated on 12.10.2016. From the audit carried out at the CHCIF, according to the data made available for the financing of the basic control concession contract, a realization level of 219,021 thousand ALL is found. The provision of this service has resumed following the order of the MHSP on 01.09.2021, presenting an overachievement compared to the projection for the remaining period of the year. Also, following the changes to the concession contract, the level of the offered service is higher than the projection of the contract in 2021, which has contributed to the reduction of the cost of the service, as these cases are deducted from the monthly service bill. For the 3-month period September-November paid in 2021, the saving effect for the provided service is in the amount of 20,098 thousand ALL, which belongs to 10,897 cases.

Chart no. 13 Actual expenditures for concession contracts /PPP for 2021

In million ALL



Source: MFE data processed by ALSAI

b) Concession contracts/PPPs without budget support

Referring to the "Summarized Annual Report 2019 - Performance of Concession Contracts/Public Private Partnership" prepared and published by MFE in 2020, it is found that the contracts without budget support are in total 210, or to the extent of 94% of the total concession contracts /PPP approved.

From the audit carried out in the **Ministry of Infrastructure and Energy** for three concession contracts without budget support, the following problems were identified according to each one of them.

- From the audit of the concession contract no. 2184/7, dated on 10.06.2016 **"For the concession of the BOT form (Construction, use and transfer in state ownership) of the construction and use of the Shengjin Yacht Port"** it was established:

- Lack of periodic three-monthly reports on the follow-up and implementation of the concession contract by the Concession Project Implementation Unit;
- The PIU has not drawn up a report on the continuous supervision of the implementation of the contract for the obligations of the concessionaire for the pre-construction phase, for the construction phase, and has also not reported on the cases of non-fulfillment by the concession for the cases defined in Article 20 of the contract;
- In the application file of the concession contract, it appears that there is no document

certifying the progress of the procedures for taking into account or not the recommendations from MIE or other documents for the continuation or not of this concession contract.

- As for the above, it was acted in violation of Law no. 125/2013 "On concessions and public private partnership" as amended, Article 10, point 3; Concession contract no. 2184/7, dated on 10.06.2016, Ministerial Order no. 4836, dated on 21.09.2016, bringing the non-implementation of the terms of the contract.

- From the audit of the monitoring of the BOT concession contract dated on 06.09.2013 **"For the construction of new production capacities for the construction, use and administration of the Hydropower Plant "Dobrenjë Tomorricë"**, in the Skrapar Shadow Stream, concession object" it was found:

- In the monitoring report, referring to the factual legal analysis, it was found that the concession contract was registered by the concession company on 06.05.2016 (almost 5 months late) not respecting the deadline of 30 days from the approval of the implementation project according to the requirements of Article 30 of the contract concessionary.
- The concessionaire has carried out works without having the Construction Permit when the approval of the implementation project for the Dobrinjë-Tomorrica HPP is dated on 17.11.2015, Construction Permit no. 59/1, dated on 10.01.2019 and the concessionaire company has the obligation to submit to the CA the record of the start of the works. According to Article 10 point 2, the Concessionaire should put the hydro power plant into operation within 12 months from the date of obtaining the construction permit. (According to the additional contract dated on 22.11.2018). The deadline for commissioning the HPP was on 10.01.2020, but the HPP turns out to be in production since December 2018.
- What has been ascertained from the monitoring of the implementation of the contract is that the MIE has not calculated the penalties for delays in the start of the works as provided for in Article 23.1/iii of the contract "For each day of delay in the start of the works, a penalty of 10,000 ALL is imposed".
- Also MIE has not drawn up, presented any letter addressed to the concessionaire for recognition of the violations and their adjustment, waiting for a period of 40 days for his response, with the relevant arguments in application of Article 24.1 of the contract.
- The MIE did not take the measures to regulate the findings from the monitoring of the implementation of the contracts by terminating the contracts or imposing sanctions according to the obligations provided in the respective contracts.

- From the audit of the concession contract **"Rehabilitation, operation and transfer (ROT) of the railway transport network on the lines Fier-Ballsh and Fier - Vlorë"**, the form of which is "rehabilitation, operation and transfer" owned by the state (Rehabilitate - Operate - Transfer/ROT), it was found:

- The periodic information of the concessionaire company is missing for the period July 2020 - December 2021;
- According to the available documentation, it is established that the rehabilitation works have not been completed on time for 46 months, and that the CA has failed to deliver and the concessionaire has failed to receive the inventory of railway assets within the deadline of 28

months.;

- The file lacks a detailed technical project for the realization of the works based on feasibility, contrary to point 6.2, letter (a) of the contract, since the concessionaire company undertakes its drafting.;
- The contractor did not respect the deadline for sending the proposal to the independent engineer by exceeding it by nearly 11 months, and the Contracting Authority did not respect the deadline for approving the proposal by exceeding it by more than 30 days, contrary to the definition of point 6.3, letters (ç) of the concession contract;
- For the period of activity of this contract from 14.02.2016 to 31.12.2021, the concessionaire has not reached the performance indicators, in terms of the average amount of goods transported per calendar year, which was 2,591,509 tons; the average number of passengers of 307.5 thousand per year; the time of the implementation of the works has not ended in the term defined in the contract of 46 months; the investment value has been realized 46%, although there is no official data neither from the independent engineer, nor from the concessionaire, nor from the PIU, nor from the annual summary report.

From the audit **in the MIE** in relation to **concession contracts for HPPs with annual energy production (over 2 MWh)** it was found that the MIE did not take measures to correct the irregularities resulting from the monitoring of the implementation of concession contracts, to impose sanctions according to obligations stipulated in the respective contracts or by terminating the respective contracts. From the audit and information of the MIE, it results that until 31.12.2021, 182 concession contracts for HPPs with annual energy production of 7,564,399,525 KW/h have been concluded and 118 HPP contracts with annual energy production of 3,805,032,574 KW/h or 50% of the total have entered into production, while 64 contracts related to annual energy production of 3,759,366,951 KW/h or 50% of the total have not entered production. It was found that a part of HPPs entered into production much later than the forecast in the contract, this reflected only for the last three years 2019, 2020, 2021 as follows:

- In 2019, 12 HPPs went into production with a total annual energy production of 219,565,780 KW/h with a delay of more than 5 years from the entry into force of the contract.
- In 2020, 5 HPPs entered production with a total annual energy production of 143,335,871 KW/h with a delay of more than 7 years from the entry into force of the contract.
- In 2021, 8 HPPs entered production with a total annual energy production of 251,057,070 KW/h, 6 of them with an annual energy production of 191,354,391 KW/h with a delay of more than 5 years from the entry in force of the contract.

From the audit conducted at the **National Agency of Natural Resources (NANR)** regarding the monitoring of hydro power plants granted with a concession and with the approval of the MIE, it was found that some concessionaires have not presented the documentation of the construction permit, or other permits, but from the part of the NANR, no measures have been taken to sensitize the competent bodies;

- It has been established that some concessionaires have changed the production capacity, however, on the part of the NANR, no calculations have been made for the consequences of the

action regarding the amount of energy and income that will be missing from the lower energy production for the state (for the cases when the capacity is lower), as well as the problem that arises in the deformation of the approved schemes and the consequences in operation;

- In some cases, the contractors present significant deficiencies in the completion of the legal technical documentation, and there is no notification of participation in testing by NANR, as a mandatory process, for the evidence of the accuracy of the implementation of the works, compared to the forecast;
- Numerous deviations such as in schemes, capacities, changes during the implementation of contracts, may be accompanied by difficulties for the realization of these works and in some cases their failure;
- Delays in the start, implementation or completion of the works, affect the start of their operation, or delay in investment efficiency, consequently less electricity in the network and missing income for the state budget;
- On the part of NANR, penalties have been calculated for non-starting, late starting, or non-completion of works on time, but no cases have been executed. The non-execution of penalties, in addition to the missing revenues for the state budget, does not encourage the concessionaires to activate their resources for the realization of the investment according to the approved forecasts (the process of applying penalties is the competence of MEI);
- Due to the high number of approved HPPs, but not started, even for considerable long periods which are considered without hope of realization, it has not been accompanied by the relevant notices for the termination of the contract, to give the opportunity to others operators for the possible realization of these investments.

Fiscal risks

b) Enterprises in the Energy Sector

In 2021, the joint order of MFE and MIE no. 304/2020, "On the approval of the plan of measures to reduce arrears in the electricity sector," which offers a series of measures to prevent arrears and the discipline of payments between energy sector companies and their main related parties.

To ensure the successful implementation of this plan, MFE and MIE have signed another joint order for the reduction of arrears in the electricity sector," which calls for charging the energy sector enterprises for monthly reporting on the repayment of arrears and the status of obligations between the energy sector and other public entities.

According to the MFE Report and the KLSH audit at this institution, the mutual obligations towards other entities until December 2021 in the electricity sector are as follows: Table no. 54 State of obligations in the energy sector, December 2021.

In billion ALL

| Status as of December 2021 | KESH | OST | OSHEE | MFE | DPT | Total |
|----------------------------|------|------|-------|-------|------|-------|
| KESH to: | x | 0.40 | 0 | 17.72 | 0.01 | 18.13 |
| OST to: | 6.6 | x | 0.97 | 14.56 | 0 | 22.13 |

| | | | | | | |
|--------------------|-------|------|-------|-------|------|--------|
| OSHEE to: | 51.35 | 13.9 | x | 4.60 | 6.70 | 76.55 |
| Enterprises UK to: | 0 | 0 | 21.90 | 0 | 0 | 21.90 |
| ML/IB | 0 | 0 | 5.50 | 0 | 0 | 5.50 |
| Total | 57.95 | 14.3 | 28.37 | 36.88 | 6.71 | 144.21 |

Source: MFE data

From the table above, it can be concluded that in addition to the mutual obligations between the companies in the energy sector, there are also 36,880 million ALL of the obligations of the companies in this sector to MFE and 6,700 million ALL in OSHEE's obligations to the General Directorate of Taxes. From the above, it can be concluded that the mutual obligations between OSHE and OST have yet to be reconciled, as they range from 13.9-17.8 billion ALL.

The lack of this reconciliation and the high level of mutual obligations between the energy sector companies, especially the obligations towards MFE and DPT, constitute an increased risk for the state budget. This is because, at the risk of the impossibility of repaying each company's obligations, the state budget must be implicated through budgetary support.

c) Enterprises of the Water Supply and Sewerage Sector

According to the Report of MFE and the audit of KLSH in this institution, it is found that, for the year 2021, there are 55 enterprises in the Water Supply and Sewerage Sector that result in losses, and only three enterprises result in profit.

The main performance indicators for the year 2021 for the water supply and sewerage companies indicate a continuation of the financial difficulty in paying the obligations, and this is due to the significant deficiencies in the collection of current and arrears invoiced revenues.

The stock of accumulated liabilities of these public companies towards OSHEE SHA remains a significant issue. Thus, in December 2021, the National Agency of Water, Sewerage, and Waste Infrastructure (AKUM), after reconciling the data with OSHEE SHA, reported that the accumulated liabilities of the water and sewerage enterprises turned out to be in the amount of 21.9 billion ALL, where only UK SHA Durrës company has 6.71 billion ALL of these liabilities.

On the part of MIE and MFE, efforts have been made to reduce arrears in the electricity sector through joint orders, requesting AKUM to report monthly on the repayment of arrears, the status of obligations to the energy sector, etc. The financial difficulties of the water supply and sewerage companies constitute an increased risk due to the need for budgetary support, which aims to curb and pay off arrears based on the vital importance for the citizens of these public companies.

d) Monitoring of arrears for general governance

The accumulation of arrears constitutes a problem for the budget system and continues to be a disturbing phenomenon, as a high level of stock is still found, as well as the subsequent creation of new obligations by the general government units. It should be emphasized that accumulated arrears imply the level of public debt, underestimating the latter.

This is because not only does the cost of paying off these obligations increase, but also, the lack of solvency of public institutions forces the Albanian government to solve this situation by increasing the level of public debt.

MFE has made efforts to monitor and reduce arrears by changing the way of reporting, but there are still shortcomings, and that makes the following still impossible: verification of arrears according to the time of their creation; avoiding differences between the declared stock of liabilities and the financial statements, or payments made outside the scheme for the liquidation of arrears.

Arrears until the end of 2021, according to the General Directorate of the Treasury, are presented in the amount of 13,334,943 thousand ALL, which belongs to the general government units (central and local), with a decrease compared to 2020 in the amount of 981,835 thousand ALL.

From the audit at the MFE, it was found that the above reporting is not complete and accurate:

- MFE, at the end of 2020, has reported two different figures of arrears, with a difference in the amount of 556,106 thousand ALL more in the current audit compared to the reporting during last year's audit, due to the arrangements in the register of liabilities.
- There is a difference between the reported paid amounts of arrears during 2021 and the actual payments according to SIFQ data tested by KLSH, in the amount of 1,212,628 thousand, ALL less than the payments reported by 359 institutions.

According to MFE data, it results that the stock of arrears at the end of 2021 to the extent of 48% belongs to the obligations of central government units and 52% to the local government.

In the central government units, most of the stock of arrears consists of court decisions with 51.4% of the liabilities, followed by other liabilities at 16.9%, investments at 12%, services at 8%, etc., and there are only three ministries: MIE, MFE, and MM, which represent about 81% of the total of this stock. From the total stock of arrears of local self-government units, 13 municipalities: Kavajë Municipality, Tirana, Vorë, Malësi e Madhe, Pogradec, Durrës, Lezhë, Kamzë, Belsh, Fier, Cërrik, Roskovec, Berat account for over 67% of the total of this stock.

e) Reporting obligations from decisions of international courts

From the audit, it was established that, both procedurally and practically, the MFE does not include in the reporting on arrears the obligations of the Albanian state from the decisions of the Courts of Arbitration and the Court of Human Rights (ECtHR).

Specifically, during the year 2021, it was reported by the MFE that two decisions of the ECHR with a total value of 4,600 euros were executed, as well as the total value of the arbitration decisions paid from the state budget in the amount of about 283.85 million ALL, mainly by the MFE, AKUM, and MTM, etc.

The audit found that according to the MFE mid-2021 report "On the implementation of the 2021 budget", the assessment of the macroeconomic fiscal and budgetary situation for the 5th month of 2021 and the expectations for the 12th month, published on the official website of the MFE, the total accumulated obligation for International Arbitration for the period January-June 2021 is presented in the amount of 155,712,905 euros.

Table no. 55 Obligations for international arbitration awards

REPORT ON THE STATE BUDGET EXECUTION 2021

Detyrime për vendimet e Arbitrazhit Ndërkombëtar

në Euro

| MINISTRIA E LINJËS | Përshkrimi i Vendimeve të Arbitrazhit | Totali i detyrimit fillestar | Detyrimi i Faturuar | Likuidimi/Paguar | Detyrimi i mbetur nga faturimi | Detyrime Kontigjente (të mundshme/të pritshme) | Totali i detyrimit të mbetur dhe detyrimeve kontigjente |
|---|--|------------------------------|---------------------|------------------|--------------------------------|--|---|
| Ministria e Infrastrukturës dhe Energjisë (MIE) | Arbitrazhi për çështjen nr. ICC no. 18474/MMH me palë paditëse "J&P AVAX" S.A kundër ish Ministrisë së Transportit dhe Infrastrukturës (sot MIE), për 4.188.308,51 Euro dhe 3.183.263 lekë | 4,214,402 | 4,214,402 | 0 | 4,214,402 | 0 | 4,214,402 |
| | Arbitrazhi në favor të shoqërisë SAFA sh.p.k për projektin e ndërtimit të rrugës "Tiranë-Elbasan", detyrimi i MIE është 3.543.337,88 Euro (2.495.166 Euro shuma e dhënë nga gjykata + 876.940,02 Euro interes i shumës së dhënë nga gjykata + 171.231,86 Euro interes për tarifat e arbitrazhit) | 3,543,338 | 3,543,338 | 0 | 3,543,338 | 0 | 3,543,338 |
| | Arbitrazhi ICC Case no. 23998/MMH/HBH, me palë paditëse Joint Venture "Copri Construction Enterprises W.L.L & Aktor S.A për konfliktin e punimeve në rrugën Tiranë-Elbasan | 38,079,336 | 0 | 0 | 0 | 38,079,336 | 38,079,336 |
| | Kosto Administrative të Arbitrazhit (Konsulencë ligjore për çështjen nr. 23988/MMH) | 11,765 | 11,765 | 11,765 | 0 | 0 | 0 |
| | Apelimi i Vendimit të Arbitrazhit, për çështjen ICC 23988/MMH/HBH (c-24011/MMH/HBH) JV Copri Enterprises W.L.L & Aktor Technical Societe kundër Shtetit Shqiptar, kosto të studios ligjore | 241,000 | 10,000 | 10,000 | 0 | 231,000 | 231,000 |
| MIE | | | 132,457 | 100,000 | 32,457 | 0 | 32,457 |
| Ministria e Financave dhe Ekonomisë (MFE) | Arbitrazhi me kompaninë Starbridge për Portin e Karpenit, "HFW" LLP * | 500,000 | 132,457 | 132,457 | 0 | 0 | 0 |
| MIE | Arbitrazhi për TIA shpk | 250,000 | 75,000 | 75,000 | 0 | 50,000 | 50,000 |
| MFE | | | 75,000 | 75,000 | 0 | 50,000 | 50,000 |
| MFE (Shteti Shqiptar) | Kontrata e angazhimit për ofrimin e shërbimeve ligjore, datë 05.04.2018, për mbrojtjen dhe përfaqësimin në procesin e Arbitrazhit ICSID ARB/17/6 (në Euro)** | 2,000,000 | 1,000,000 | 1,000,000 | 0 | 0 | 0 |
| | Arbitrazhi ICSID nr. ARB/15/28 "Hydro dhe të tjerët kundër Shqipërisë" (çështja Becchetti) | 108,000,000 | 108,000,000 | 0 | 108,000,000 | | 108,000,000 |
| | Kosto ligjore lidhur me vendimin e Arbitrazhit CSID nr. ARB/15/28 "Hydro dhe të tjerët kundër Shqipërisë" (çështja Becchetti) | 906,201 | 875,201 | 875,201 | 0 | 31,000 | 31,000 |
| | Arbitrazhi ICSID nr. ARB/15/28 "Hydro dhe të tjerët kundër Shqipërisë", kosto angazhimi eksperti në procesin e anulimit të vendimit | 20,000 | 20,000 | 20,000 | 0 | 0 | 0 |
| | Arbitrazhi ICSID nr. ARB/15/28 "Hydro dhe të tjerët kundër Shqipërisë", kosto administrative dhe aplikimi | 231,000 | 231,000 | 231,000 | 0 | 0 | 0 |
| | Arbitrazhi ICSID nr. ARB/15/28 "Hydro dhe të tjerët kundër Shqipërisë", kosto studio ligjore për procesin e anulimit të vendimit (200.000 \$) dhe pagesë për regjistrimin e kërkesës për korrigjim vendimi (10.000 \$) | 176,650 | 176,650 | 176,650 | 0 | 0 | 0 |
| | Kosto për përfaqësimin e interesave të Republikës së Shqipërisë për kundërshimin e procedurës së vendimit nr. ARB/15/28 "Hydro dhe të tjerët kundër Shqipërisë", në Belgjikë. Kosto të studios ligjore. | 101,000 | 70,000 | 70,000 | 0 | 31,000 | 31,000 |
| | Arbitrazhi ICSID nr. ARB/15/28 "Hydro dhe të tjerët kundër Shqipërisë", vlera e kostave ligjore për anulimin e vendimit, prej 449.000\$ | 377,551 | 377,551 | 377,551 | 0 | 0 | 0 |
| Ministria e Bujqësisë dhe Zhvillimit Rural | Arbitrazhi me Valeria Italia S.r.l, me shpenzime për avokatët prej 750.000 EUR dhe kostot fillestare 19.500 EUR | 769,500 | 219,500 | 219,500 | 0 | 550,000 | 550,000 |
| | Arbitrazhi me Valeria Italia S.r.l, kosto administrative në favor të Gjykatës për zgjidhjen me mirëkuptim të çështjes mes palëve. | 150,000 | 150,000 | 150,000 | 0 | 0 | 0 |
| Ministria e Turizmit dhe Mjedisit | Anullimi i vendimit ICSID Case no. ARB/14/26 Albaniabeg Ambient shpk, Angelo Noveli, Construzioni S.R.L, kosto të studios ligjore | 1,269,033 | 337,661 | 337,661 | 0 | 931,372 | 931,372 |
| Total | | 159,934,575 | 118,776,781 | 2,986,584 | 115,790,197 | 39,922,708 | 155,712,905 |

* Bazuar në vendimin e Komisionit përkatës të negociimit u vendos mosvijimi i negociatave me Starbridge. Rrjedhimisht kontrata e shërbimeve me konsulentin nuk ezauroi të 3 fazat e kontratës. Rrjedhimisht as vlerën e plotë të saj prej 500.000 Euro.

** Sipas kontratës mas ofrimi i konsulencës është mbyllur në fazë "juridiksioni", është faturuar vetëm 50% e vlerës totale prej 2.000.000 Euro, pra vetëm 1.000.000 Euro.

2.6 Expenditures for the local budget

According to the draft budget, the law on a budget for 2021, as amended by three Normative Acts, and the fiscal table of the consolidated budget, the planning, and the realization of expenses for the local government are presented in the following table.

Table no. 56 Planning of expenses for the local government and their realization

million ALL

| Nr. | Designation | Project Budget | Budget 2021 | AN 4 | AN 26 | AN 34 | Fact 2021 |
|-----|-----------------------------------|----------------|-------------|--------|--------|--------|-----------|
| I. | Expenditures for the Local Budget | 56,326 | 56,326 | 56,826 | 57,840 | 57,940 | 52,593 |
| 1 | Transfers from the state budget | 26,550 | 26,550 | 27,050 | 27,164 | 27,789 | 43,338 |

| | | | | | | | |
|----------|--------------------------------------|--------|--------|--------|--------|--------|--------|
| <i>a</i> | Unconditional fund | 18,200 | 18,200 | 18,450 | 18,450 | 18,480 | |
| <i>b</i> | Specific Grant | 7,850 | 7,850 | 8,100 | 8,150 | 8,260 | |
| <i>c</i> | Transfer for civil emergencies | 500 | 500 | 500 | 564 | 1,103 | |
| 2 | Expenditures with foreign financing | 750 | 750 | 750 | 750 | 555 | 414 |
| 3 | Local budget (own tax revenue) | 25,426 | 25,426 | 25,426 | 25,426 | 25,926 | 25,798 |
| 4 | Local budget (from non-tax revenues) | 2,700 | 2,700 | 2,700 | 2,700 | 2,700 | 1,164 |
| 5 | Separate taxes | 900 | 900 | 900 | 900 | 970 | |

Source: MFE data processed by ALSAI

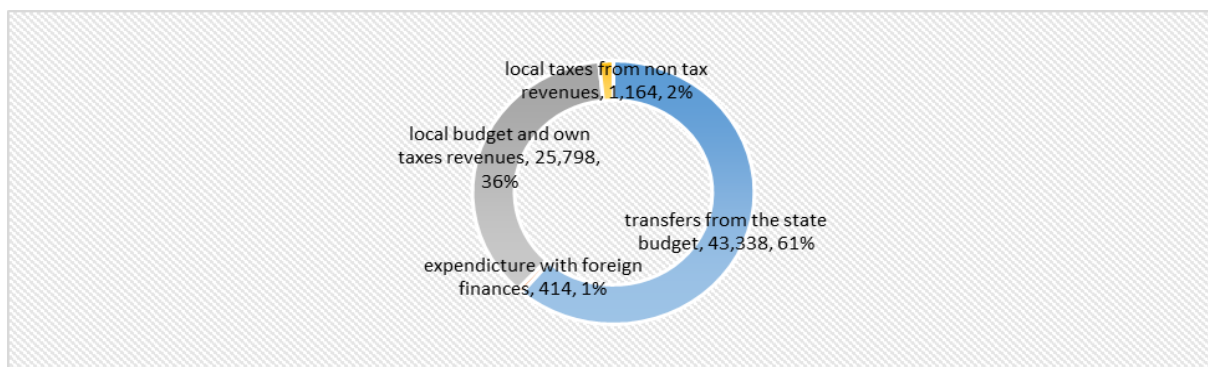
In the draft budget and with the initial budget law, the expenses for the local budget are planned in the amount of 56,326 million ALL, of which the expenses from the state budget transfers are planned in the amount of 26,550 million ALL, the expenses from the own income of the government units local fees are planned in the amount of 25,426 million ALL, the expenses with foreign financing are planned in the amount of 750 million ALL, the expenditures from non-tax revenues are planned in the amount of 2,700 million ALL and the expenses from taxes are planned in the amount of 900 million ALL.

With AN no. 4, dated 05.02.2021, the expenses for the local budget have increased by 500 million ALL, an increase attributed to transfers from the state budget, reaching a total value of 56,826 million ALL. The same thing happened with AN no. 26, dated 22.06.2021, increasing again by 1,014 million ALL, in a total amount of 57,840 million ALL.

With AN no. 34, dated 03.12.2021, the expenses for the local budget are finally planned in the amount of 57,940 million ALL, increasing by 100 million ALL, compared to the previously amended plan, which reduced the expenses with foreign financing and increased the two items of others. In the final plan, expenses from state budget transfers are in the amount of 27,789 million ALL, with foreign financing in the amount of 555 million ALL, from the units' own income in the amount of 25,926 million ALL, from non-tax income in the amount of 2,700 million ALL and expenses from taxes allocated in the amount of 970 million ALL.

For the year 2021, according to the table of consolidated fiscal indicators, local budget expenditures were realized in the amount of 52,593 million ALL, against the value of 57,940 million ALL planned with AN no. 34, or realized to the extent of 90.7%, with non-realization for the amount of 5,347 million ALL, compared to the final budget plan. Compared to the initial plan, the local budget expenditures were realized to the extent of 93.4%, with non-realization in the amount of 3,733 million ALL.

Chart no. 14 Structure of the actual expenses of the local budget 2021



Source: MFE data processed by ALSAI

In the actual expenditures of the local budget, 61% are transferred from the state budget, and 38% are from the local budget, from tax and non-tax revenues.

The expenses realized from the local budget for 2021 constitute 9.6% of the total expenses.

In 2021, local budget expenditures were made 967 million ALL more than in 2020 or 1.9% more, but in the amount of 3,634 million ALL less than in 2019.

The audit results show that despite the fact that the total expenditure for the local budget is declared in the amount of 55,593 million ALL, referring to the table of fiscal indicators for the month of December, the total of the items that make up the expenditure of the local budget results in the value of 70,714 million ALL, reflecting the difference in the value 18,121 million ALL, which represents the expenses realized from the local budget for the Reconstruction Fund.

In the monthly tables of fiscal indicators for the period January - December 2021, the value of the expenditures made by the local budget for the unconditional transfer is also included the value of the expenditures made by the Reconstruction Fund.

Referring to the composition of the total local budget expenses of 2021, it is found that current expenses make up 78.5%, while capital expenses are only 21.5% of this total. Also, comparing the progress of these expenditure items in the period 2019-2021, it turns out that current expenses tend to increase, and within them, mainly personnel expenses, as well as capital expenses tend to decrease.

From the audit of 51 local self-government units on the implementation of legality related to the administration and use of the budget funds made available, it is found that in addition to the work done, many irregularities and violations of the legal provisions in force have also been found.

These violations have caused total economic damage in the amount of 29,627 thousand ALL, of which 1,599 thousand ALL is in the field of operating expenses and the rest of 28,028 thousand ALL in the field of investments. In the implementation of civil works, damages in the amount of 7,624 thousand ALL for payments of uncompleted works, deficiencies in the procedure in the amount of 20,404 thousand ALL for unfair disqualification of the EO, etc., were recorded. Referring to the local units, it is found that the largest values are recorded in the municipalities of Saranda, Korçë, Fier, Berat, etc.

During the audit of the procurement procedures with public funds in 2021, violations of the legal, by-law, and regulatory framework were found in the preparation of the tender documents, including a lack of argumentation of the value of the contract (fund limit), a lack of argumentation of special criteria, and the drafting of the document was not in accordance with the nature and value of the contract, did not correctly define the technical specifications, etc. Also, problems have appeared in the phase of supervision and implementation of work contracts, mainly because of the nature of non-implementation of contract conditions, non-implementation of the requirements of technical construction manuals, etc.

Referring to the data published on the official website of the MFE, it is established that, at the end of 2021, the stock of arrears for local self-government units is 6,604.2 million ALL, of which the arrears for municipalities are 6,484.5 million ALL and the liabilities of arrears for the counties are 119.7 million ALL.

According to the type of arrears stock, it turns out that 55.9% belong to investment obligations, 14.7% to other arrears, services 10.9%, court decisions 10.4%, goods with about 5.2%, maintenance with about 2.7%, etc.

From the audit at the DPT, it appears that there are local self-government units that have arrears for social and health insurance and personal income in the amount of 74 million ALL.

From the audits carried out for 36 municipalities on the stock of arrears until 31.12.2021, it resulted in the value of 5,305,868 thousand ALL, 15.9% of the total planned annual expenses, or 21.6% of the total annual actual expenditures for these municipalities, without including the value of liabilities for the liquidation of loans that the municipalities of Berat¹⁰, Lezhë, Korçë and Kavajë have, which increase these indicators.

Table no. 57 The progressive stock of arrears on 31.12.2021

Thousands ALL

| (36 municipalities) | Stock of arrears without including loans | Planned annual expenses | Regarding the planned expenses | Actual annual expenses | Regarding the actual expenses |
|---------------------|--|-------------------------|--------------------------------|------------------------|-------------------------------|
| I. Value | 5,305,868 | 33,282,459 | 15.9 % | 24,569,543 | 21.6% |
| | Stock of arrears with loans | Planned annual expenses | Regarding the planned expenses | Actual annual expenses | Regarding the actual expenses |
| II. Value | 5,529,147 | 33,282,459 | 16.6% | 24,569,543 | 22.5% |

Source: From ALSAI audits in NJVV

According to the total value of the stock of arrears for each municipality, it turns out that the largest weight to the total value of the stock is the Municipality of Kavaje in the amount of 1,238,991 thousand ALL, or 22.43% of the total, followed by the Municipality of Vorë in the amount of 515,591 thousand ALL, or 9.33% of the total and Malësi e Madhe Municipality in the amount of 322,781,244 thousand ALL, or 5.84% of the total. Out of 36 municipalities, 6 of them (Municipality of Kavajë, Vorë, Malësi e Madhe, Pogradec, Lezhë, and Shkodër) constitute 53.25% of the total stock of arrears of the above local self-government units.

Referring to the analysis it results that the value of the stock of arrears created during the year 2021 is in the amount of 1,141,770 thousand ALL, or 21% of the total progressive stock of arrears on 31.12.2021. The municipality that has created more arrears during 2021 is Malësi e Madhe Municipality in the amount of 98,877 thousand ALL, or 8.85% of the total value of the obligation, followed by Lezhë Municipality in the amount of 96,711 thousand ALL, or 8.47% of the total. Rogozhinë in the amount of 78,734 thousand ALL, or 6.9% of the total, Elbasan Municipality in the amount of 75,521 thousand ALL, or 6.6% of the total, and Kukës Municipality in the amount of 71,391 thousand ALL, or 6.25%.

In the audits of the above municipalities, mainly in those municipalities that have created more obligations during the year 2021, it is established that the creation of back obligations has come as a result of taking budget commitments without having available funds, poor planning and implementation of the budget, also from the MFE side, etc.

¹⁰ The value of the loan in the Municipality of Berat is 173,282.8 Euros and has been translated into 22,180,198 Lek, using the average between two values of the exchange rate, namely 1 Euro with 116 Lek and 1 Euro with 140 Lek.

The municipalities that have not created arrears during 2021 are Krujë, Sarandë, Vorë, Përrenjas, and Shijak.

From the audits carried out for 36 municipalities on the stock of arrears until 31.12.2021, it resulted in the value of 5,305,868 thousand ALL, 15.9% of the total planned annual expenses, or 21.6% of the total actual annual expenses for these municipalities, without including the value of liabilities for the liquidation of loans that the municipalities of Berat¹¹, Lezhë, Korçë and Kavajë have, which increase these indicators.

Table no. 58 The progressive stock of arrears on 31.12.2021

Thousands ALL

| (36 municipalities) | Stock of arrears without including loans | Planned annual expenses | Regarding the planned expenses | Actual annual expenses | Regarding the actual expenses |
|---------------------|--|-------------------------|--------------------------------|------------------------|-------------------------------|
| I. Value | 5,305,868 | 33,282,459 | 15.9 % | 24,569,543 | 21.6% |
| | Stock of arrears with loans | Planned annual expenses | Regarding the planned expenses | Actual annual expenses | Regarding the actual expenses |
| II. Value | 5,529,147 | 33,282,459 | 16.6% | 24,569,543 | 22.5% |

Source: From ALSAI audits in NJVV

As for the weight of the type of arrears, it turns out that 2,709,672 thousand ALL, or 49% of the total, are the obligations for the liquidation of tax invoices for investments, for current expenses (goods, services, and maintenance) in the amount of 1,858,404 thousand ALL, or 33.6% of the total, for court decisions in the amount of 506,258 thousand ALL, or 9.16% of the total, for the liquidation of long-term loans in the amount of 223,279 thousand ALL, or 4% of the total, other obligations (expropriations, rewards) in the amount of 203,266 thousand ALL, or 3.68% of the total. It should be noted that about 92,934 thousand ALL, or 18% of the total arrears for the liquidation of court decisions, are for the termination of labor relations, as well as the rest for various civil cases.

In the report on the status of financial difficulties of local self-government units, the arrears of the municipalities are stated as 6,463.7 million ALL, reflecting a difference of 20.8 million ALL for the arrears belonging to the municipality of Tirana. The municipality of Kavaja has the highest stock of liabilities, in the amount of 820.05 million ALL, or 12.6% of the total arrears, and the municipality of Tirana, in the amount of 653.17 million ALL, or 10.1% of the total arrears. The municipality of Vorë, in the amount of 515.59 million ALL or 8% of the total arrears, the municipality of Malësi e Madhe, in the amount of 322.78 million ALL or 5% of the total arrears, and the municipality of Pogradec in the amount of 320.64 million ALL or at the rate of 4.9% of the total arrears. As for the counties, Durrës county has the highest debt stock, in the amount of 55.7 million ALL or 46.5% of the total arrears for the counties, Berat county, in the amount of 46.9 million ALL or 39.2%, the county Gjirokastrë, in the amount of 15.4 million ALL or 12.8%, Vlorë district, in the amount of 1.3 million ALL or 1.1% and Korçë district, in the amount of 0.5 million ALL or 0.4% of the total liabilities of the districts.

¹¹ The value of the loan in Berat Municipality is 173,282.8 Euros and has been translated into 22,180,198 Lek, using the average between two values of the exchange rate, namely 1 Euro with 116 Lek and 1 Euro with 140 Lek.

Also, the municipalities have themselves declared the state of arrears at the end of 2021 and the repayment plan for the arrears. It turns out that for 13 municipalities, the arrears registered in the treasury system are higher for the value of 1,017,597 thousand ALL than the self-declared liabilities of the local self-government units, for which they must review the plans for paying off the arrears in accordance with obligations registered in SIFQ. The differences come mainly from the arrears created by the water utilities, as well as from the investments made for the municipalities by the Albanian Development Fund, while the municipality of Gramsh has itself declared arrears in a higher value than the arrears registered in the treasury system.

The Directorate of Local Finances regarding the status of the financial condition of local government units has drawn up the "Report on the status of financial difficulties for the year 2021", which does not include the financial condition of the 12 regions of the country.

Referring to this report, the analysis of the financial situation of 61 municipalities, based on obligations, results in that: 44 municipalities are classified as without financial problems, ten municipalities are classified with financial problems, and seven municipalities are classified with financial difficulties.

The audit shows that the levels of the stock of unpaid obligations have not been respected in relation to the status of financial difficulties of the local self-government units and their classification for the Municipality of Delvina and the Municipality of Dimal since they are included in the status of municipalities with financial problems when, from indicators they should have been classified as municipalities in financial difficulties, increasing this number from 7 to 9 municipalities.

From the determination of the financial status of the local self-government units, based on the percentage of unpaid obligations to third parties over the approved annual expenses, it is found that, at the end of 2021, there are 56 municipalities or 92% of them that have realized the budget of approved to the extent of 36%-92% and only five municipalities, or 8% of them have realized it to the extent of over 90% of the approved expenses. Based on this indicator, the classification would differ from the previous one: 35 municipalities would be classified without financial problems, 14 municipalities would be classified with financial problems, ten municipalities would be classified with financial difficulties, and two municipalities would be classified with insolvency.

The municipalities of Rogozhinë, Divjakë, Klos, Finiq, Kukës, Kamëz, Pukë, Berat, and Selenica, from the status without financial problems, would be classified as having financial problems. While the municipalities of Kuçovo, Lezhë, and Pogradec, classified with financial problems, would be classified as having financial difficulties. The financial situation for the municipality of Vorë and the municipality of Kavaja is more problematic with these extremely deteriorated indicators.

From the comparison of the value of the stock of arrears reported by MFE with the value of the stock of arrears recorded by ALSAI, as well as with the stock of liabilities in 2020, it is concluded that:

- the value of the progressive stock of arrears resulting from the audit of ALSAI carried

out in MFE is 810,183¹² thousand ALL more;

- adding the value of liabilities for the liquidation of long-term loans, the stock of arrears recorded by ALSAI leads to 1,033,463 thousand ALL more than the stock reported by MFE, with an increase in the value of 223,279 thousand ALL.

According to MFE, in 2021, unused funds from 2020 were inherited in the amount of 19,910 million ALL, of which 19,562 million belong to municipalities and 348 million to counties, which also includes the value of 6,524 million ALL, which belongs to unused funds for reconstruction. From the audit conducted in the MFE, it appears that the value of the inherited income differs from the amount that should have been inherited.

Table no. 59 shows unused revenues inherited in the 2022 budget year

Thousands ALL

| Government local units | Legacy Income from 2021 | Total Revenue, 2021 | Total Expenses 2021 | Inherited income for 2022 | Income to be inherited for 2022 | The difference |
|----------------------------------|-------------------------|---------------------|---------------------|---------------------------|---------------------------------|----------------|
| 61 Municipalities + 12 Districts | 13,386,831 | 57,187,427 | 52,593,237 | 20,373,644 | 17,981,020 | 2,392,623 |

Source: MFE data and ALSAI calculations

In total, all local government units have inherited 20,374 million ALL of the funds for 2022 (not including reconstruction funds), while according to the tests carried out by ALSAI on the data made available by the Directorate of Local Finances, for 2022, 17,981 million ALL should have been inherited, with a difference of 2,393 million ALL.

For 2021, the reserve fund for local government units, from the total unconditional transfer, is estimated at 100 million ALL. In Article 15 of Law no. 137, dated 16.12.2020, it is determined that the reserve fund from the total unconditional general transfer is used by the ministry responsible for finance in accordance with the criteria defined in Annex 2, which is attached to this law, which are:

- Compensation for any error in the calculation of the criteria of the distribution formula of the unconditional transfer for the year 2021;
- For the new functions transferred to the municipalities since 2016;
- For service expenses caused by Covid-19;
- For various financial needs of municipalities.

The audit shows that, for the year 2021, 7 municipalities such as Finiq, Delvina, Vlorë, Sarandë, etc., have benefited from funds from the unconditional transfer reserve fund, with a total value of 100 million ALL, distributed within the first three months of 2021.

2.7 Audit results on expenditures

ALSAI, throughout 2021 and 2022, has conducted audits for periods of activity of entities that partially or fully included the 2021 budget year, but as a result of this report, the problems of the 2021 budget year have been identified, regardless of the period of the most recent audit,

¹² Specifically, the stock of arrears (not including long-term loans) recorded by KLSH is in the value of 5,305,868,837 thousand ALL, as well as the stock reflected by MFE is in the value of 4,495,684,870 thousand ALL.

which was more comprehensive than this year.

Thus, the economic damage to the state budget in the area of total expenses is 277,013 thousand ALL and according to the areas: in spending for investments 253,565 thousand ALL or 92% of the total damage, in operating expenses 9,155 thousand ALL and in the implementation of projects with financing foreign 8,131 thousand ALL or each with about 3%, as well as others with 6,162 thousand ALL or 2% of the total.

While there were expenses used without effectiveness, efficiency, and economy in the amount of 36,769,349 ALL, which belong to other expenses 91% (333,303,859 thousand ALL); investment expenses 7% (2,731,049 thousand ALL); expenses for projects with foreign financing 1.5% (549,877 thousand ALL) and expenses for salaries, insurance and operating 0.5% (184,564 thousand ALL).

In more detail, according to the results of the audits, the problems in the field of expenses are as follows:

-From the audit at the General Directorate of Taxes, it is found that, in 2021, expenses were liquidated for the implementation of final court decisions for former employees unfairly dismissed, in the amount of 186,466 thousand ALL, for 196 employees. for the period 2005-2021. The fact that the former dismissed employees have won the court proceedings shows that the process of dismissing employees was irregular, and the DPT did not implement the requirements of the regulatory framework in force for this process. Court decisions have not been analyzed by the Head of the General Directorate of Taxes, and he has not been asked to issue responsibilities for these decisions, contrary to legal and regulatory provisions. Analyzing the reasons for the losses of court proceedings and issuing administrative responsibilities for them would have a positive effect on correcting the wrong practices followed by DPT in the processes of dismissal of employees.

-From the audit of the Compulsory Health Care Insurance Fund results that public funds were used without effectiveness, efficiency, and economy in the total amount of 90,624 thousand ALL, as follows:

-At the end of 2021, 22 cases with the object "Wage compensation" are in the judicial process at different levels of judgment, as well as liquidations were carried out for final court decisions for former employees dismissed from work for the period in the amount of 20,628 thousand ALL, a value which constitutes a negative financial effect on the state budget.

-The concession contract "For the provision of hemodialysis" resulted in the fact that the number of dialysis sessions according to the monthly projection was not carried out, mainly in the Shkodër and Vlora dialysis centers, and for several months in the Lezhë dialysis center, due to the lower number of patients than the projection, resulting in a financial effect from billings for incomplete services for dialysis sessions in the amount of ALL 69,996 thousand.

The audit of the activity of the Administrative Council results that in relation to the approval of the list of drugs that are reimbursed by the FSDKSH and the extent of their coverage, the decision was taken in the absence of necessary detailed accompanying information and documentation, listed according to the alternative cheaper, reference prices and the measure of their coverage and the relation for each proposed drug with the corresponding economic effect.

From the audit of the relevant documentation on which the decision-making of the LBR Technical Commission is based, it was found that the entire procedure of drawing up the List of Reimbursable Medicines 2021 was accompanied by irregularities related to the content of the list, the deadlines of the activities, and the failure to highlight the categories of various types of drugs, actions, and inactions associated with an effect in the financial value of 56,770 thousand ALL, drugs reimbursed during the last five months, from medications included in the list of drugs reimbursable after the October 31, the deadline set by the Ministry of Health no. 645, dated 01.10.2014, for their inclusion in the list.

From the audit of the data processing at the time of passing the online declaration of the inventory of pharmaceutical warehouses dated 01.08.2021 with the one carried on 31.07.2021, 29 pharmaceutical warehouses with positive and/or negative differences result: 26,975 thousand ALL is the value of over-produced medicines and missing medicines in the amount of ALL 5,261,790 thousand, also due to the lack of inventory disposal in e-Depo (replacement of boxes with tablets), as well as duplication of inventory in the system.

-From the audit at the Ministry of Finance and Economy - the Apparatus found that, for the year 2021, liquidations were carried out for final Court Decisions for former employees unjustly dismissed from work, in the amount of 16,955 thousand ALL for 15 people, including the financial effects from the lack of voluntary execution of court decisions, a value which results in a negative financial effect on the state budget.

The MFE apparatus, as a spending unit, does not draw up 4-monthly monitoring reports to follow the realization of its budget products; a significant number of budget revisions were carried out, considered to have a negative impact on the budget monitoring indicators.

Opened projects for the MFE apparatus have been found, without going through the legal process of approving the Medium-Term Budget Plan, in violation of Law no. 9936 dated 26.06.2008, "On the management of the budget system in the Republic of Albania" and instruction no. 4, dated 25.01.2021 "On the implementation of the 2021 budget", point 21; and payments were made for two MFE system contracts, which were concluded by AKSHI, and the funds for them were not planned by MFE.

From the audit related to the inventory of state property, it was found that the process of physical inventory of assets has not been carried out, and the accounting register of the assets that it owns or has in the administration has not been drawn up.

From the audit on the realization of projects with foreign financing, it is found that for four projects (Nest, Past 4 Future, Ois-Air, and Bree) realized during 2021, planned funds were committed as investments for the performance of operating expenses in salaries, social and health insurance, promotional expenses, marketing, and external expert expenses. The amounts reported as capital investments are engaged in operating expenses, increasing the investment in the process account as a result of improper classification in the accounting account since in none of these cases is it related to the creation of intangible assets such as patents, software, licenses, trademarks, etc. Through the misclassification of the used account, investment indicators are overestimated from the initial request to the reporting of these funds according to the economic nature of the destination of use.

During the audit, it was found that although some funds are planned and administered by units

in the MFE structure (CFCU Directorate and National Fund Directorate), they are not part of the MFE financial statements for 2021.

In the open tender procurement procedure, with the object "Reconstruction of the professional high school, "Antoni Athanas" Sarandë" was approved on the basis of a preliminary work project presented by the CA without documenting and developing a procedure for assessing the needs of necessary reconstruction according to the items of works and evaluating on the spot as well as the previous investments made in this facility.

In the Procurement Procedure open simplified tender, with the object: "External Audit of Projects and grants with Foreign Financing for the year 2020," it was found that the deadline set by the NJP in the DST from the beginning is clearly not only unfeasible but also not necessary since it was determined to complete the audit work for 23 projects in only about 27 calendar days, but the fact of the additions made shows that there was no urgency for the CA, and it is enough to refer to previous contracts to predict the deadline at the end of this contract of 5 months, influencing the reduction of competition in addition to other consequences.

In relation to the procurement procedures for purchases with small values, it turned out that, in all cases, the selection of economic operators to whom the invitation to bid was sent was not documented and argued; there is no request for the need to carry out the procurement procedure; the technical specifications of the requested goods and the criteria for qualification are not substantiated; there are cases when the commission for receiving the goods, etc. have not been set up.

From the audit on the monitoring of the MFE's responsibilities in commercial companies with less than 50% state capital, it was found that not in all cases did the representative of the Minister participate in the meetings of the General Assembly, justified by reasons of delays in signing the attitudes and authorizations from the senior management structure, as in the cases of Ital Druri LLC Elbasan, Foralb Alabastër LLC Kavajë, etc., despite the non-determining role in decision-making.

-From the audit of the General Directorate of Customs, it is established that, during 2021, expenses were liquidated for the implementation of final court decisions for former employees dismissed from work in the amount of 20,212 thousand ALL, which are considered negative financial effects caused to the state budget.

- As a result of the transfer of employees within the system not in accordance with the relevant legal and regulatory criteria, there have been negative financial effects in the state budget in the amount of 6,995 thousand ALL.

Also, in the procurement procedures, economic damage was caused to the state budget in the amount of ALL 966 thousand, an uncalculated and unpaid penalty for delays in implementing the contract.

- From the audit of the Bank of Albania it results that during the period from 01.01.2021 to 08.31.2021, 70% of the expenses of this period were realized.

From the audit, it is established that by August 2021, 17.6% of the annual plan in total for capital expenditures has been completed, resulting in the non-realization of approved investments throughout the audit period.

In the procurement procedures by the procurement commission, the efforts to negotiate the offer on the procurement object are not documented; in a procurement procedure, the field of activity presented in the extract of the entity announced as the winner does not contain the specifications of the procurement object, despite the presentation by this entity of an offer with a lower value; the problem related to the fulfillment of the criterion with judicial certifications and the establishment of criteria different from those proposed by the requesting department; in the implementation of the contract for the reconstruction of the building of the former hotel Dajti, it turns out that the 33 months deadline from the handover of the object was not respected, due to the unargued approval of the suspension deadlines.

-From the audit at the Institute of Social Insurance, it appears that in the procurement procedures, the established criteria have not been technically and legally argued ("Insurance of the assets of ISSH, DAQ Lundre, DRSSH, and relevant ALSSH for the period of 1 year for the year 2021"); in purchases with small values, the selection of economic operators to whom an invitation to bid has been sent has not been documented and argued, the liquidation has been carried out without creating a takeover commission, with the participation of a specialist in the field, etc.

-From the audit of the Tirana Treasury Branch, there are 402 cases where the invoice number in the system does not end with the year 2021 for the period 01.01.2021-31.08.2021; 577 cases where the same invoice number was used for more than one "Invoice no"; 77 cases, where the date of the supplier is after the date of registration; from the audit of the data of transactions processed in the SIFQ system, 13 cases with a total value of ALL 8.8 million exceeding the deadline for processing and executing payments were found, an action contrary to law no. 48/2014 "On delayed payments in contractual and commercial obligations" article 7, "Terms for a public authority," letter a).

In relation to the registration of contracts, 1243 contracts worth 93,851,139 thousand ALL were found to have been registered outside the legal deadlines; The lack of distribution was found for a total of 101 contracts, doubled compared to 2020, contrary to point 65 of instruction no. 9 of the Ministry of Finance and Economy, dated 20.03.2018, "On standard budget implementation procedures" as amended, etc.

-From the audit of DRT Korçë, high credit balances of VAT, TF, and TTHF were found, as there are 50 subjects with unchanged or increasing credit balances with trade and production activity, which increase the risk of evasion through non-declaration of sales. Although these entities represent 47% of the VAT credit surplus at the regional level, they have not been the subject of monitoring and verification, contrary to the requirements and definitions of the Manual of the Sector of Control from the Office and Monitoring, point 5, point 9.

-From the audit of the Gambling Supervision Authority, it was found that the restructuring of this institution, according to VKM No. 598, dated 09.10.2018 "On the temporary suspension of the activity of the Gambling Supervision Authority," has remained in the process, unfinished and exceeding the legal deadlines, causing financial consequences in expenses for salaries and social security for employees over the planned number in the total value of 7.2 million ALL.

- From the audit of DRT Tirana, it was found that in the procurement procedures for purchases with a small value in the calculation of the limit value of the contract, no market investigation

was done/argumentation and documentation of the calculation of the contract value was not done, as well as the files of the procedures of audited procurement are not inventoried and archived.

-From the audit of the State Inspectorate of Market Supervision, it was found that in the procurement procedures, economic damage was caused to the state budget in the amount of 998 thousand ALL as a result of the non-delivery of goods according to the required technical specifications and the unfair disqualification of the economic operator with the lowest bid.

- In the performance audit "Effectiveness of management of the system of identification and registration of livestock animals - RUDA," carried out at the Ministry of Agriculture and Rural Development, the National Veterinary and Plant Protection Authority, the National Food Authority, and the Institute of Food Safety of Veterinary Medicine for the period 2019 - 2021, resulted in the complete non-operation of 5 veterinary laboratories of AKU, for animal health, resulting in the ineffective use of the state budget in the item of expenses in the amount of 4,956 thousand ALL, for the salaries of the employees of these laboratories.

-In the health sector, seven subjects have been audited that the budget year 2021 is affected by 1-3 months, and in one case in Sarandë Municipal Hospital, violations and deficiencies were found, resulting in economic damage in the amount of 1,331 thousand ALL in the implementation of contracts, for payment of services and worked unfinished and use without economy, effectiveness, and efficiency of funds in the amount of 2,869 thousand ALL, which resulted from the non-use of the rented premises as well as non-compliance with the defined technical specifications.

-From the audit at the National Agency of Water, Sewerage and Waste Infrastructure, economic damage in the amount of 22,966 thousand ALL was found as a result of the liquidation of unfinished works in three contracts for public works. In addition, the use of funds without economy, effectiveness, and efficiency in the amount of 155,060 thousand ALL, specifically: 2,283 thousand ALL in procurement procedures where operators were qualified and announced as winners, not meeting the criteria required in the DT, were found; 26,745 thousand ALL for penalties in the implementation of contracts and works not according to specifications and 126,031 thousand ALL for damages for various legal processes.

-From the audit of the National Agency of Civil Protection, economic damage was found in the amount of 4,670 thousand ALL in operating expenses for liquidation per working hour and 22 thousand ALL in expenses for wages not in accordance with the relevant qualifications of the job position.

-The IT audit in the National Food Agency, the Central Inspectorate, and the National Agency of the Information Society found that the inspection process is not fully computerized. The problems of this computerization are many, becoming an obstacle for the activity of AKU. The lack of strategy, regulatory acts, historical data for AKU, devices, and internet for inspection, problems in the functionality of the "e-inspection" system, as well as addressing them to the Central Inspectorate, when the administrator and follower of the maintenance contract are ANA, are some of the main factors that have affected the quality and accuracy of the data that the National Food Authority generates.

-From the IT audit in the Public Procurement Agency, it was found that the identification and

administration of critical elements in the provision of services and the guarantee of data security as well as continuity in the provision of services through Information Technology are insufficient. In the Electronic Procurement System's administration, duties and responsibilities overlap between the Public Procurement Agency and the National Agency of the Information Society.

The services provided by AKSHI in PPA are not monitored according to the provisions of the service level agreement, and the IT structure of AKSHI in PPA lacks human resources.

-From the IT audit at the Institute of Food Safety and Veterinary Medicine (ISUV), the lack of institutional strategy and the lack of strategy in terms of information technology carries the risk of misaddressing the resources needed to support the activity of ISUV have been found.

ISUV has invested in the direction of information technology systems without implementing the legal and sub-legal provisions and the necessary regulatory basis for their operation, not effectively using the state's budget funds.

Investments in information technology systems have yet to definitively solve information security problems, ensuring business continuity and recovery from disasters.

From the audit of the implementation of the contracts, it was found that seven components defined in the LIMS system maintenance contract were not implemented, for which payments were made according to the situation and invoices presented by the Economic Operator in the amount of 1,704 thousand ALL, which constitutes economic damage to the state budget.

- From the IT audit in the Albanian Post JSC, the lack of an institutional strategy and a strategy in the direction of information technology, which carries the risk of misaddressing the resources needed to support the activity of the Albanian Post, was found.

Also, the lack of appropriate controls and mechanisms to create, maintain and develop IT resources and the lack of regulatory acts in terms of information technology systems have influenced an unmonitored development of institutional activity without delegating individual responsibilities for actions done.

The developments of the central "Eterna" information system, which have given the Albanian Post company many opportunities to add services, have taken place under the conditions of copyright and in the absence of ownership of the source code, elements which have had a negative impact on the participation of economic operators and the good use of public funds.

Also, it turns out that the identification and administration of critical elements in the provision of services and the guarantee of data security, as well as continuity in the provision of services through information technology, needs to be improved.

-From the IT audit in the State Cadastre Agency, it was found that the lack of institutional strategy and strategy in terms of information technology carries the risk of misaddressing the resources needed to support its activity.

The lack of appropriate controls and mechanisms to create, maintain, and develop IT resources and the lack of updated regulatory acts in information technology systems have influenced an unmonitored development of institutional activity without delegating individual responsibilities for actions done.

The performance of the operation of the multifunctional system, caused by the high overload, is weak, as it constantly works with interruptions and has problems with the normal course of work, negatively affecting the activity of specialists and the institution in providing services to citizens and businesses.

The identification and administration of critical elements in the provision of services to citizens and businesses and the guarantee of data security, as well as continuity in the provision of services through information technology, needs to be improved.

The electronic administration of official real estate information and real rights on it is carried out by the Economic Operator of the service contract of the electronic register of real estate, when the ASHK must do this by determining the responsible persons who must administer each type of official real estate information and their rights, acting contrary to the legal stipulations for the cadastre.

ASHK has not taken measures for the transfer of responsible ICT structures to ANA, as well as the delivery of the existing ICT Systems and Infrastructure under the administration and inventory of ANA, together with the legal-civil rights and obligations according to the definitions and deadlines established in VKM No. 673, dated 22.11.2017, "On the reorganization of the National Agency of the Information Society," as amended.

2.8 Public enterprises and their budgetary impact

Public companies' management and administrative practices affect the state budget through the payment of tax obligations, the level, and term of which depend significantly on their financial management.

-The financial and compliance audit of Agrokredit JSC gave an adverse opinion on the financial statements and the compliance of this entity's economic and financial activity. Referring to the findings pertaining to the year 2021 follows:

Irregularities were found in the procurement procedures; the calculation of reserve funds to cover losses from loans until the end of October 2021 was kept less in the reserve fund than the allowed rate, the value of ALL 3,872 thousand; expenses were incurred for court decisions for dismissed employees in 5 cases in the total amount of 7,383 thousand ALL, which constitute an inefficient and ineffective use of the company's funds as they burdened the budget of Agrokredit JSC, as a result of unfair decision-making for the dismissal of them from work.

From the audit of 7 entities in the water supply sector, deficiencies and violations were found, resulting in economic damage in the amount of 49,831 thousand ALL, divided explicitly into 1,417 thousand ALL in operating expenses (staff salaries, rental equipment, etc.) works at the Shkodër Water and Sewerage Company; 1,187 thousand ALL for unfair disqualification in a procurement procedure and 47,227 thousand ALL in the implementation of contracts (for unfinished works, penalties for non-fulfillment on time, non-fulfillment of specific technical specifications in the supply of goods, etc.) in three entities in the water supply sector Shkodër, Saranda and Elbasan.

In addition, the use of public funds without economy, effectiveness, and efficiency was found in the amount of 54,296 thousand ALL, a value which resulted mainly in the field of expenses, specifically:

Salaries and bonuses: The sum of 1,871 thousand ALL in UK Vlora for employee payments on the approved structure, liquidations in violation of the legal framework for overtime hours, as well as for payments not accompanied by supporting documentation for the employee per diems; the amount of 1,628 thousand ALL in UK Gjirokastër for liquidations in violation of the legal framework for overtime working hours, as well as the amount of 3,788 thousand ALL as compensation for illegal termination of labor relations and enforcement expenses, as well as the amount of 3,264 thousand ALL in UK Saranda for exceeding the number of employees.

Operating Expenses: The sum of 23,229 thousand ALL in UK Vlorë, UK Gjirokastër, UK Saranda for payments made as a result of the loss of court proceedings for unfair dismissals, non-collection of obligations to debtor customers, obligations arising from non-payment of invoices of electricity to FSHU SHA, payments for rewards in the conditions of exit with loss of balances as well as fines due to late deliveries of PF to the competent authorities.

Procurement procedure and implementation of contracts: The amount of 9,052 thousand ALL in UK Gjirokastër and UK Shkodër for setting discriminatory criteria in public procurement procedures as well as non-preliminary evaluations of the effectiveness of the investment.

Other: Other: The sum of 17,054 thousand ALL due to not liquidating the obligations provided for in the loan agreement act on time.

From the audit in the hydrocarbons sector in Albgaz SHA, it was found that the use of public funds without economy, effectiveness, and efficiency in the amount of 3,825 thousand ALL in current expenses for employee bonuses, operating expenses, and the loss of court cases in seven cases.

2.9 Cadastre management and fiscal impact

From the compliance audits carried out in 4 local directorates of the State Cadastre Agency, for which qualified opinions were given, it was found that, in addition to the problems of legalization procedures and the approval of permits not in accordance with legal and by-laws, the approval of the legalization of informal facilities without applying the criteria and/or without respecting the permitted distances from other facilities (canals, railways, etc.), problems with an impact on budget revenues have been identified due to the non-liquidation of the infrastructure impact tax for legalized facilities in violation of the construction permit; not making payments for legalization permits that are marked "Transfer of ownership for the construction plot will be approved by Decision of the Council of Ministers"; for non-payment of construction plots for legalization permits; obligations arising from the use of land owned by the state, etc., which have resulted in missing income in the state budget in the total amount of 87,802 thousand ALL the loan agreement act.

3. BUDGET DEFICIT

According to the budget law for the year 2021, the budget deficit was initially 108,695 million ALL, changed by AN No. 26, dated 22.06.2021, reaching the value of 120,543 million ALL, and finally, with AN No. 34, dated 03.12.2021, it is at a total of 120,542 million ALL, but still lower compared to 2020, which was planned and changed to 132,965 million ALL.

In the LOB, it is determined that in the initial annual budget law¹³, as well as in the medium-term budget planning, when the real growth of the Gross Domestic Product, predicted in the respective report "World Economic Perspective," of the IMF, is at least 5 per percent, and then the total deficit cannot be higher than 2 percent of the Gross Domestic Product, except in cases of exceptional circumstances, defined in letters "a," "b" and "c," of Article 4/ 4, of this law.

Referring to the MFE Report, it results that the budget deficit provided for in the initial budget law and subsequent amendments were 6.5% and 6.9% of GDP.

Table no. 60 The percentage of the projected deficit, compared to the percentage of GDP growth.

| No. | Designation | Law no.137, 16.12.2020 | AN no. 4, 05.02.2021 | AN no. 8, 22.03.2021 | AN no. 18, 12.04.2021 | AN no. 26, 22.06.2021 | AN no. 34, 03.12.2021 |
|-----|---|------------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| 1 | Real GDP growth according to the IMF in % | 6.1 | 6.1 | 6.1 | 5 | 5 | 5.3 |
| 2 | Estimated deficit in % of GDP | 6.5 | 6.5 | 6.5 | 6.5 | 6.9 | 6.9 |
| 3 | Deficit according to LBO in % | 2 | 2 | 2 | 2 | 2 | na |

Source: MFE Report data processed by ALSAI

The initial law no. 137/2020, "On a budget of 2021," approved on 16.11.2020, for the general deficit did not respect the limit of the general budget deficit of up to 2% of the GDP defined in law no. 9936, dated 26.06.2008, "On the management of the budget system in the Republic of Albania," amended, Article 4/1, Point 1.d, but has provided for more than three times higher.

It should be noted that law no. 86/2021, which approved Normative Act no. 25 dated 22.06.2021, "On some changes in law no. 9936, dated 26.6.2008, "On the management of the budget system in the Republic of Albania," as amended," amending, among others, that the fiscal principles and rules defined in points 1 to 4 of article 4/1 of law no. 9936, dated 26.6.2008, "On the management of the budget system in the Republic of Albania," as amended, not to be applied except for the year 2021, was approved on date 01.07.2021, i.e., more than seven months after the approval of the initial budget law.

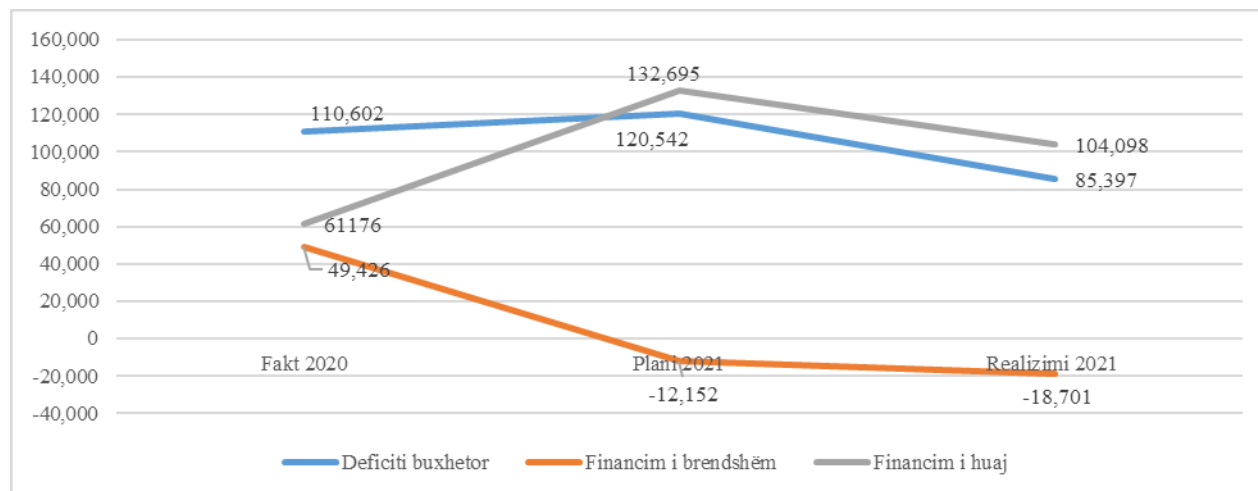
However, analyzed from the point of view of forecasting the growth rate of revenues, expenditures, and the budget deficit within the year, it is concluded that there was a tendency for the budget deficit to grow at a faster rate than that of revenues and expenditures, temporarily weakening fiscal sustainability.

The actual budget deficit for the year 2021 results in the value of ALL 85,397 million, or realized to the extent of 71%, which constitutes 4.5% of the GDP, suffering a decrease compared to the predicted indicator. The measurement of the budget deficit in terms of Gross Domestic Product

¹³ Law no. 9936, dated 26.06.2008 "On the management of the budget system in the Republic of Albania", amended article 4/1, point 1.d

as an indicator of effectiveness in the management of annual public finances proves that in 2021 the limit of up to 2% of GDP was not respected, although the nominal value in 2021 indicates that the start of the trend appears to be descending.

Chart no. 15 Progress of the 2020-2021 budget deficit



Source: MFE data processed by ALSAI

The internal budget deficit (revenues from privatization, internal borrowing, and others) as well as the foreign budget deficit (long-term borrowing, change in cash balance, re-payments, and budget support) at the end of 2021, resulted as follows:

Table no. 61 Budget deficit according to sources and items 2021

million ALL

| No. | Designing | Revised plan | Realization | Differences + or - | % of realization |
|-----|----------------------------|--------------|-------------|--------------------|------------------|
| | Deficit | 120,542 | 85,397 | 35,146 | 71 % |
| I | Domestic | -12,152 | -18,701 | - 6,549 | 154.5 % |
| 1. | Incomes from privatization | 0 | 306 | + 306 | |
| 2. | Domestic loan | 49,900 | 48,705 | - 1,198 | 98 % |
| 3. | Other | -62,052 | - 67,712 | - 5,660 | 109 % |
| II | Foreign | 132,695 | 104,098 | - 28,596 | 78 |
| 1. | Long term loan | 109,396 | 93,491 | -15,904 | 85 % |
| 2. | Change of checkout balance | 0 | 1,230 | + 1,230 | |
| 3. | Repayments | -34,120 | - 33,164 | 956 | 97% |
| 4. | Budget support | 57,419 | 42,541 | -14,878 | 74 % |

Source: Fiscal indicator data according to the consolidated budget and audit in the Ministry of Finance

93,491 million ALL was financed through long-term borrowing and 48,705 million ALL through internal borrowing, while the rest belongs to privatizations, changes in the state of the treasury, and budget support. Domestic borrowing has been negative due to other financings, which have been exceeded by 6,549 million ALL or 50% more compared to planning, as well as a part of foreign financing has been used for repayments in the amount of 33,164 million ALL.

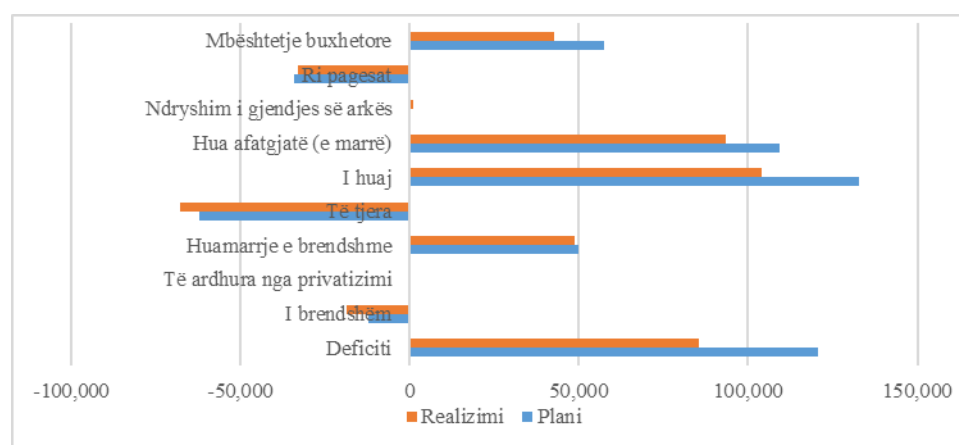
From the audit at the MFE, it was found that internal borrowing through instruments such as treasury bonds and bonds, according to the reporting in the consolidated fiscal indicators, is

presented in the amount of 48,705 million ALL, with a non-realization of 1,198 million ALL, against the plan in the amount of 49,900 million ALL.

In addition, the repayments for the foreign debt are presented with non-realization in the amount of 956 million ALL, paying off the principal of the external debt in the amount of 33,164 million ALL against the planned 34,120 million ALL.

Regarding the reports on the new loan received and the principal payments made according to the General Directorate of the Treasury and the General Directorate of Public Debt and the coordination of foreign aid, differences are found in some of the elements according to the table below.

Chart no. 16 Budget deficit according to sources and items



Source: Fiscal indicator data according to the consolidated budget and audit in the Ministry of Finance

According to the consolidated fiscal indicators of the MFE, the budget deficit for 2021 has resulted in 85,397 million ALL, at a time when 95% of the revised planned expenditures have been realized, which is significantly better than in 2020, as a result of the increase of the level of accumulated income.

Despite the fact that the budget deficit execution ceilings have not been exceeded at the end of the first quarter, the first six months, and the nine months, according to the provisions in the organic budget law¹⁴, it should be noted that from the analysis of the consolidated fiscal indicators on the level of the budget deficit presented by MFE, results in 61.5% in December 2021, reaching its highest level, because 44% of capital expenditures with internal financing were carried out in this month, compromising the efficient, effective, and economical use of public funds, from the concentration of their use at the end of the year.

We emphasize that the increase in the budget deficit affects the increase in public debt, and for this, the government must implement balanced budget policies, not allowing an increase in the deficit, to prevent the increase in interest rates and inflation in the medium-term period.

4. PUBLIC DEBT MANAGEMENT AND REPORTING

According to the MFE, the forecast for the ratio of public debt to the Gross Domestic Product

¹⁴ Law no. 9936, dated 26.06.2008, "On the management of the budget system in the Republic of Albania," amended article 4/3,

was taken into consideration to be at a lower level than the level estimated in the previous year¹⁵, in reference to the determinations of the LOB: in the original law, 79.2% of 79.9 was foreseen % estimated for 2020.

Even in the case of the evaluation of the actual debt during 2021, they result in a level of 73.2% of the GDP, with a decrease of almost 1.3 percentage points from 2020, as well as lower than the initial expectations.

From the audit at the MFE, according to the data made available, it was found that the public debt was estimated at 1,382,976 million ALL, with an annual increase of 158,506 million ALL. The main indicators of public debt and its progress according to MFE reporting, according to the stock reported for 2021, are presented according to the following table:

Table no. 62 Progress of the stock of public debt to GDP 2015-2021

million ALL

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------------|
| Public debt | 1,043,229 | 1,066,611 | 1,088,169 | 1,107,285 | 1,112,626 | 1,224,470 | 1,382,976 |
| Central government debt | 1,042,272 | 1,065,710 | 1,087,342 | 1,106,569 | 1,112,044 | 1,224,038 | 1,382,661 |
| Local government debt | 957 | 901 | 827 | 716 | 582 | 432 | 315 |
| PBB | 1,434,307 | 1,472,479 | 1,550,645 | 1,636,730 | 1,691,903 | 1,644,077 | 1,890,280 ¹⁶ |
| Debt stock/GDP (%) | 73% | 72% | 70% | 68% | 66% | 74% | 73% |

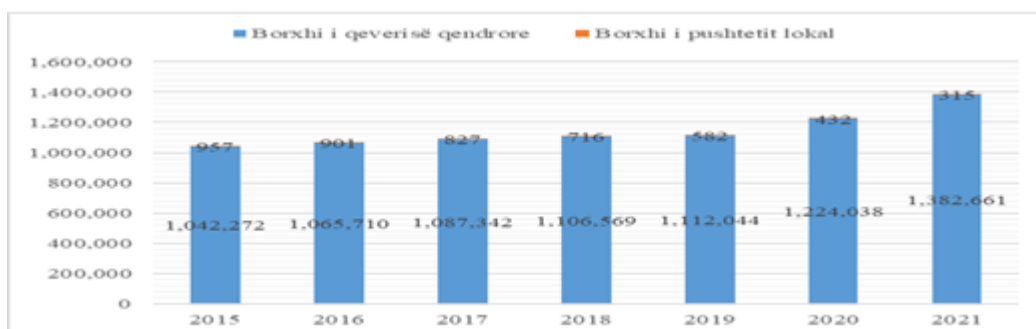
Source: MFE data processed by ALSAI

MFE, for the year 2021, has reported that the stock of public debt to GDP was at the level of 73.2% from 74.5% in 2020. From the analysis of this indicator, it is concluded that the decrease in the indicator of public debt in relation to GDP has come mainly from two factors: the reduction of local government debt and the fact that the annual growth rate of GDP is greater than that of the public debt stock. From the above, it follows that in 2021 there is an increase in the public debt in the amount of 158,506 million ALL, or by about 13% more compared to 2020.

Chart no. 17 Public debt 2015-2021

¹⁵ LOB, article 4/1, point 1.c

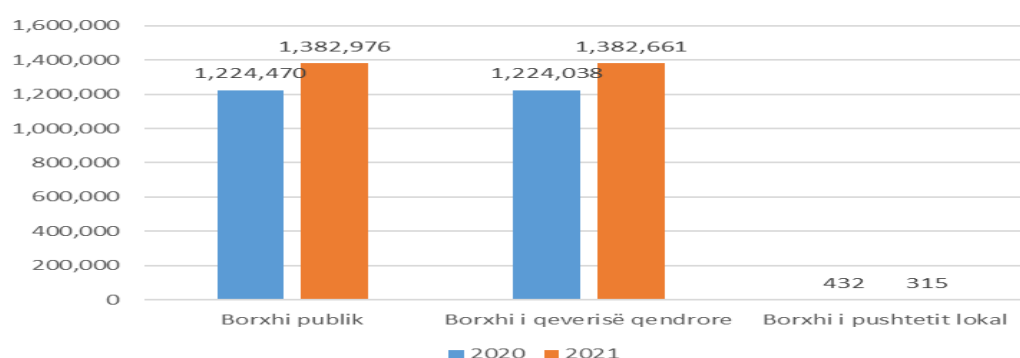
¹⁶ GDP reassessed according to the sources cited in the March 2022 debt bulletin (INSTAT and the Macroeconomic Directorate)



Source: MFE data processed by ALSAI

The effects of the revaluation of the debt stock due to the change in the exchange rate, calculated at a value of -1,434 million ALL, as well as the increase in the absolute value of the GDP compared to the previous year, which is estimated at around 246,203 million ALL or 15% more, must also be taken into consideration.

Chart no. 18 Debt stock by composition 2020-2021



Source: MFE data processed by ALSAI

Since, in the stock of public debt, local government debt occupies a negligible percentage, the stock of central government debt was analyzed, which consists of state debt classified into internal (50.8% of the stock) and external (49.2% of the stock) and guaranteed or not, respectively 4% and 96%.

Table no. 63 Central government debt stock 2017-2021

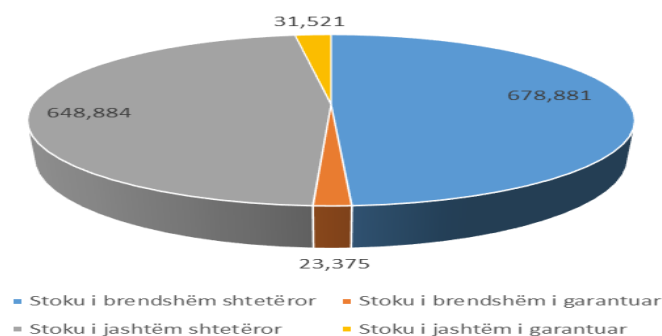
million ALL

| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Domestic debt stock | 577,056 | 580,311 | 597,290 | 644,088 | 702,256 |
| <i>Internal state stock</i> | <i>546,939</i> | <i>565,093</i> | <i>582,136</i> | <i>630,791</i> | <i>678,881</i> |
| <i>Guaranteed internal stock</i> | <i>30,117</i> | <i>15,218</i> | <i>15,154</i> | <i>13,297</i> | <i>23,375</i> |
| Stock of external debt | 510,286 | 526,258 | 514,754 | 579,950 | 680,406 |
| <i>State external stock</i> | <i>490,518</i> | <i>496,804</i> | <i>488,056</i> | <i>544,434</i> | <i>648,884</i> |
| <i>Guaranteed external stock</i> | <i>19,768</i> | <i>29,454</i> | <i>26,698</i> | <i>35,516</i> | <i>31,521</i> |
| Stock of central government debt | 1,087,342 | 1,106,569 | 1,112,044 | 1,224,038 | 1,382,661 |

Source: MFE data processed by ALSAI

Compared to 2020, it is found that the increase in the debt stock of the central government in the amount of 158,623 million ALL, of which the stock of external debt has increased by 104,450 million ALL, mainly as a result of the issuance of the Eurobond, has decreased in the guaranteed external stock, as well as an increase in the value of 48,090 million ALL in the internal debt stock, influenced by the issuance of more debt instruments in the internal market.

Chart no. 19 Composition of the 2021 debt stock



Source: MFE data processed by ALSAI

From the audit in the MFE, related to the internal state debt, it is found that state securities were issued in the internal market in the total amount of 345.12 billion ALL, of which 215.84 billion ALL are treasury bonds and 129.28 billion ALL are bonds, issued in national currency. According to the reporting in the fiscal indicators of the consolidated budget, 48.86 billion ALL of this borrowing was used to finance the deficit, and the rest was used to refinance maturing titles according to internal instruments. Most of the new debt of 96.6% was borrowed through long-term securities, in line with the medium-term strategic objectives for reducing the risk of refinancing and that of interest rates and served for the refinancing of existing securities and the rest for the needs of planned budget increases.

The maturities during the year 2021 are presented in the amount of 296.26 billion ALL in total with the purchase price, of which 214.16 billion ALL for treasury bonds and 82.10 billion ALL for bonds. The procedure for planning, developing, and reporting auctions of treasury bonds and bonds has been developed at the Bank of Albania, as the relevant authority mandated the issuance of these instruments on behalf of the Albanian state.

Long-term bond instruments dominate the domestic debt stock, with a stock value of ALL 476,769 million at the end of 2021, compared to all 202,112 million for short-term instruments. Compared with the same period of the previous year, the stock of domestic market instruments is presented as follows.

Table no. 64 Stock of domestic market instruments 2020 – 2021

million ALL

| Instrument | 2020 | 2021 | The change |
|-----------------------|----------------|----------------|--------------|
| Treasury bonds | 200,437 | 202,112 | 1,675 |
| 3 months | 1,498 | 2,644 | 1,146 |
| 6 months | 1,901 | 2,717 | 816 |
| 12 months | 197,038 | 196,750 | - 288 |

| | | | |
|-------------------|----------------|----------------|---------------|
| BONDS | 430,354 | 476,769 | 46,415 |
| 2 years | 85,085 | 89,856 | 4,771 |
| 2 years in euro | 12,370 | 12,076 | - 294 |
| 3 years | 43,358 | 59,858 | 16,500 |
| 5 years | 112,837 | 117,754 | 4,917 |
| 7 years | 83,675 | 84,728 | 1,053 |
| 10 years | 93,029 | 111,347 | 18,318 |
| 15 years | - | 1,150 | 1,150 |
| Total instruments | 630,791 | 678,881 | 48,090 |

Source: MFE data processed by ALSAI

The stock of internal state debt for 2021 has increased by ALL 48,090 million or about 7.6%, going from ALL 630,791 million in 2020 to ALL 678,881 million in 2021. Regarding short-term instruments, it is found that the specific weight of bonds has increased for 3-month, 6-month, and 12-month treasury bonds, and the financing of budget needs through short-term instruments, with a net effect on short-term instruments of ALL 1,675 million, or about 0.8% of the total stock of treasury bonds, going from 200,437 million ALL in 2020 to ALL 202,112 million in 2021.

The internal stock of long-term debt results in a significant increase of ALL 46,415 million or about 9.75% of the relevant total, from ALL 430,354 million, at the end of 2020 to ALL 476,769 million at the end of 2021. The trend throughout 2021, as well as during 2020, is in the direction of recomposing the portfolio with longer-term instruments, in line with the medium-term strategic objectives for increasing the maturity of the debt portfolio, where the issuance of 3, 5, 10, and 15-year bonds has contributed the most to this direction.

In April 2021, the Bank of Albania (BSH) notified the MFE, that at the end of the audit process of its financial statements, the "Currency Revaluation Reserve" account at the end of the 2020 financial year resulted in a negative balance of ALL 6.928 billion, for which, in accordance with the law, it requested its coverage by issuing 6-month Treasury bills.

In June 2021, MFE notified BSH about the issuance of securities in the amount of 6.928 billion ALL with a maturity of 6 months and an interest rate equal to the weighted average yield of the last treasury bond auction.

Subsequently, on the maturity date from BSH on 17.12.2021, it has been addressed to the MFE, requesting the reissuance of the 6-month title that matures on 20.12.2021 through renewal with a purchase price of the instrument worth 6.928 billion ALL. From the audit, it has been established that MFE has renewed the issuance in the amount of 6.928 billion ALL on 07.01.2022, beyond the maturity date of 20.12.2021.

In conclusion, this security was not presented in the debt register for the year 2021, in the debt indicators, and therefore not even in the public debt stock of this year. The effect of the above debt instrument not being issued in the amount of ALL \$6.928 billion represents an underestimation of the real debt stock reported for 2021 in the same amount.

At the end of 2021, the guaranteed domestic debt has increased by 10,078 million ALL, passing from the level of 13,297 million ALL at the end of 2020 to 23,375 million ALL at the end of 2021, with FSHU/OSHEE SHA and KESH SHA as the main borrower.

The internal guaranteed debt includes the two sovereign guarantees, respectively, in the amount of 1,397 million ALL and 8,141 million ALL at the end of 2021. Compared to 2020, it turns out that the stock of Sovereign Guarantee No. 1 has decreased as a result of the payments made by the beneficiary businesses and there were no new disbursements during 2021, and the stock of Sovereign Guarantee No. 2 has increased due to the disbursements made during 2021, which has influenced the increase in the stock of internal guarantees. Based on the above, the conclusion is reached that with the increase in the stock of guarantees, the risk of MFE's exposure to borrowers' insolvency also increases.

Regarding the external debt, it results in the fact that throughout the year 2021, the disbursement transactions for 43 loans with a total in national currency in the amount of 137.4 billion ALL were recorded in the internal debt management system, of which four loans were recorded as guarantees that had disbursements during the year in the amount of ALL 1.36 billion. The rest of the 39 projects include a disbursed amount of 136 billion ALL, of which 4 are classified as budget support in the amount of 119.8 million ALL, transferred directly to the unified treasury account in foreign currency.

During the year 2021, 12 loan agreements were signed in the framework of external borrowing for project financing, guaranteed loans or budget support, amounts, and creditors, according to the following table.

Table no. 65 State loans and guaranteed loans 2021

| State loans | | | | |
|------------------|--|----------|-------------|------------------|
| Creditor | Project | Currency | Value | Enforcement Unit |
| IBRD | Fiscal sustainability and growth development policies | USD | 80,000,000 | MFE |
| Arabia Saudite | Rehabilitation and Reconstruction of the Vlorë-Orikum Coastal Road | SAR | 112,500,000 | FSHZH |
| KfW | Reform in the energy sector | EUR | 100,000,000 | MIE |
| Eurobond | Budget support | EUR | 650,000,000 | MFE |
| KfW | Rehabilitation of energy efficiency in student dormitories | EUR | 20,000,000 | MIE |
| CEB | Mitigation of the COVID-19 pandemic | EUR | 60,000,000 | MFE |
| EIB | UKT Water distribution | EUR | 80,000,000 | UK Tiranë |
| KfW | HEC Fierzë | EUR | 40,000,000 | MIE (KESH) |
| AFD | Policy-reform in the energy sector | EUR | 50,000,000 | MFE |
| AFD | Gender equality supported by policies | EUR | 50,000,000 | MFE |
| Guaranteed loans | | | | |
| EBRD | Stand-By Credit Line ASD | EUR | 100,000,000 | ASD |
| EBRD | OSHEE COVID -19 | EUR | 70,000,000 | OSHEE |

Source: MFE data processed by ALSAI

The audit on principal payments reveals that repayments totaling ALL 35.9 billion have been recorded in the internal system of recording debt transactions, including payments made by beneficiaries of guarantees or sub-borrowers. Detailed data regarding principal payments made for state loans and guarantees made by The State Budget and the relevant beneficiaries are presented as follows.

Table no. 66 2021 Principal Payments

ALL

| Paid Principal | Paid principal/ALL | | Total |
|-----------------|--------------------|--------------------|----------------|
| | State budget | Beneficiary Entity | |
| State Loan | 31,337,081,930 | 13,433,253 | 31,350,515,183 |
| State Guarantee | 1,986,370,175 | 2,552,855,606 | 4,539,225,781 |
| Total | 33,323,452,105 | 2,566,288,858 | 35,889,740,964 |

Source: MFE data processed by ALSAI

Throughout the year 2021, the guaranteed external debt appears to decrease by 3,995 million ALL, according to reports in the debt register, compared to the same period of the previous year, from 35,516 million ALL to 31,521 million ALL. The decrease in the guaranteed external debt in 2021 has come as a result of the larger principal payments made by the state budget against smaller disbursements for these guarantees. The State Budget for 2021 paid a principal of \$1,986.37 million ALL for cases of foreign guarantees where the beneficiaries failed to meet their obligations. The same situation appears for interest expenses, where the State Budget has paid 216.51 million ALL in interest expenses. The amount returned to the state budget by beneficiaries of guarantees for these payments made during the year 2021 is 2,552.86 million ALL for the principal and 414.14 million ALL for interest, continuing the trend of accumulating liabilities to the budget as in previous years.

Table no. 67 Principal and interest payments of state guarantees 2021

million ALL

| Designing | Paid Principal | Interest paid off | Total |
|--------------------|----------------|-------------------|----------|
| State budget | 1,986.37 | 216.51 | 2,202.88 |
| Beneficiary Entity | 2,552.86 | 414.14 | 2,967.00 |
| Total | 4,539.23 | 630.65 | 5,169.88 |

Source: MFE data processed by ALSAI

From the audit, it was found that, for non-performing foreign guarantees, the MFE does not analyze the request for payment of the beneficiary institutions if it is in accordance with the conditions that make it necessary to present such a request, but it is enough to engage in a formal communication process with the beneficiary of the guarantee, who confirms whether or not he is able to repay the next installment, and in case of incapacity on his part, the payment from the State Budget is processed. According to the debt service audit, interest expenses at the end of 2021 totaled ALL 35,822.30 million, an increase of ALL 1,428.90 million over the previous year. Reports on costs for interest on domestic debt and interest on foreign debt are given in millions of ALL, according to the table below.

Table no. 68 Debt interest payments 2017 – 2021

Million ALL

| Interest expense | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Internal debt interests | 21,414.59 | 23,157.97 | 22,837.89 | 22,350.91 | 23,470.40 |
| Foreign debt interests | 10,489.19 | 13,355.40 | 12,304.93 | 12,042.49 | 12,351.90 |
| Total debt interest | 31,903.78 | 36,513.37 | 35,142.82 | 34,393.40 | 35,822.30 |

Source: MFE data processed by ALSAI

Domestic debt has seen the greatest increase in debt interest, with approximately ALL 1,119.49 million paid in interest, compared to ALL 309.41 million paid in interest on external debt.

Domestic debt interest expenses have increased compared to the previous year, where the interest for 2021 is estimated at 23,470.40 million ALL, compared to 22,350.91 million ALL in 2020. The majority of the interest on domestic debt is accumulated as interest on bond coupons. The data on interest paid throughout the year 2021 according to domestic debt instruments are presented below.

Table no. 69 internal debt interest payments 2020 – 2021

million ALL

| Year | 2020 | 2021 |
|---|------------------|------------------|
| Interest Domestic Debt | 22,350.91 | 23,470.40 |
| Interest Treasury Bonds | 3,268.34 | 3,733.82 |
| 3/month treasury bonds interest issued in the financial market | 28.63 | 30.19 |
| 6/month treasury bond interest issued in the financial market | 30.92 | 39.65 |
| One-year treasury bonds interest issued in the financial market | 3,208.79 | 3,663.97 |
| Interest Bonds | 19,034.62 | 19,645.00 |
| Interest bonds in the financial market with a maturity of 6 to 10 years | 11,030.84 | 11,026.83 |
| Interest bonds in the financial market with maturity from 1 to 5 years | 8,003.78 | 8,618.17 |
| Interest Sovereign Guarantee | 47.95 | 91.57 |
| Interest on the Sovereign Guarantee 1 | 47.95 | 91.57 |

Source: MFE data processed by ALSAI

The interest on 3-month treasury bonds is presented in the amount of 30.19 million ALL, given that more such bonds were issued during the year than last year when they were in the amount of 28.63 million ALL.

The interest on the 6-month treasury bonds has increased by about ALL 8.73 million compared to the previous year, as more emissions of this instrument were carried out throughout the year.

It is also established that the interest paid on one-year Treasury bonds has increased by ALL \$455.18 million over the previous year.

Bond coupons are not at the same levels as a year ago, owing to a difference in maturities, with interest paid for bonds maturing in 1-5 years increasing by approximately ALL 614.39 million, while the interest paid for bonds maturing in 6-10 years decreasing by approximately ALL 4.01 million.

In relation to the interest paid for Sovereign Guarantee 1, the situation is presented with an increase of ALL \$43.63 million.

Foreign debt interest expenses have increased compared to the previous year, where foreign debt interest expenses for 2021 are estimated at 12,944.13 million ALL compared to the 12,396 million ALL declared in 2020.

The data on interest paid in ALL for 2020 and 2021 are presented below, according to the type of borrowing.

Table no. 70 Interest payments and external debt commissions 2020 – 2021

million ALL

| Year | 2020 | 2021 |
|--|------------------|------------------|
| Interest Declared Foreign Debt | 12,396.00 | 12,944.13 |
| Interest Foreign Debt | 11,440.00 | 11,702.55 |
| Long-term borrowing interest from international institutions | 5,650.52 | 5,054.66 |
| Long-term borrowing interest from foreign governments | 1,175.19 | 1,085.99 |
| Long-term borrowing interest for other external borrowings | 4,614.01 | 5,561.90 |
| Foreign Borrowing Commissions | 956.00 | 1,241.58 |
| Foreign borrowing commissions | 956.42 | 1,241.58 |

Source: MFE data processed by ALSAI

The increase in debt service is attributed to the increase in foreign borrowing interests compared to the previous year by about ALL 262.55 million. More specifically, the increase of ALL 947.89 million in "Interest on long-term borrowing for another external borrowing" and a decrease in two other items: respectively, ALL 595.86 million in "Interest on long-term borrowing from international institutions" and ALL 89.20 million in "Long-term borrowing interests from foreign governments." This is because, during 2021, there was an increase in reference interest rates in international markets due to the increase in demand for funds in these markets to cope with the consequences of the pandemic situation.

The expenses of the commissions in relation to a year ago for the external debt have increased by about 285.16 million ALL, conditioned by the high management commissions when the loan becomes active, where to be mentioned are loans from the EBRD, IBRD and Eurobond.

On the registration and collection of rights arising from the sub-loan relationship, guarantees, and loans from the budget.

Regarding the rights to collect from the sub-loan relationships, ALSAI has established the creation of new obligations in the amount of 6,511 million ALL of the subborrowing entities within the sub-loan agreements throughout the year 2021 as a result of the non-repayment of the respective obligations.

According to the audit of sub-loan agreements, the stock of loans related to this component of the state debt has deteriorated during 2021. In this way, the data related to the state's rights to

collect against the relevant agreements show an increase in the right to collect, as shown in the table below for the last few years.

Table no. 71 Stock of obligations from sub-loan relationships 2018 – 2021

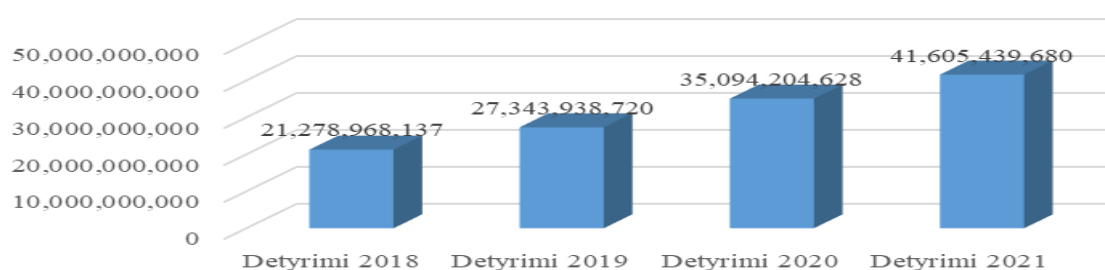
ALL

| Sector/Institution | Liability 2018 | Liability 2019 | Liability 2020 | Liability 2021 |
|----------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
| Energies | 12,688,764,872 | 16,980,772,829 | 22,772,169,156.00 | 27,128,734,793 |
| <i>KESH</i> | 6,932,415,130 | 8,649,361,190 | 12,887,266,141.80 | 15,286,928,519.72 |
| <i>OSHEE</i> | 1,510,620,353 | 2,583,655,499 | 2,593,797,377 | 2,640,445,990.15 |
| <i>OST</i> | 4,245,729,389 | 5,747,756,140 | 7,291,105,637 | 9,201,360,283.46 |
| Water supply | 5,981,938,063 | 6,409,007,664 | 7,177,075,469 | 7,991,844,828 |
| <i>Durrës</i> | 1,156,396,669 | 1,339,229,523 | 1,467,625,951 | 1,686,424,196 |
| <i>Korçë</i> | 977,275,071 | 1,284,074,366 | 1,634,770,700 | 1,907,687,217 |
| <i>Vlorë</i> | 1,847,464,146 | 1,965,131,665 | 2,052,373,975 | 2,055,067,587 |
| <i>Other</i> | 2,000,802,177 | 1,820,572,110 | 2,022,304,843 | 2,342,665,828 |
| Municipality | 2,571,631,379 | 3,877,431,361 | 5,050,189,246 | 6,372,067,193 |
| <i>Tirane</i> | 2,533,853,418 | 3,825,880,230 | 4,994,602,981 | 6,314,169,682 |
| <i>Other</i> | 37,777,961 | 51,551,131 | 55,586,265.20 | 57,897,511 |
| MicroCrediT | 31,270,041 | 70,269,933 | 87,028,161 | 104,079,093 |
| <i>FAF</i> | 310,382 | - | - | - |
| <i>Unioni Kursim Kredi</i> | 30,959,658 | 70,269,933 | 87,028,161 | 104,079,093 |
| ARMO | 5,363,783 | 6,456,933 | 7,742,595 | 8,713,772 |
| TOTAL | 21,278,968,137 | 27,343,938,720 | 35,094,204,628 | 41,605,439,680 |

Source: MFE data processed by ALSAI

From the above, it is concluded that with the deterioration of the debt situation in 2021, the energy sector appears, with sub-loans from KESH, OSHEE, and OST with a total increase in liabilities of about 4,356 million ALL from 6,511 million ALL in total; local government with about 1,321 million ALL; the water supply sector with about 814 million ALL; microcredit institutions with sub-loans from FAF and the Credit Savings Union with 17 million ALL, as well as ARMO with 0.971 million ALL.

Chart no. 20 Stock of obligations from related sub-loan 2018 – 2021



Source: MFE data processed by ALSAI

Also, it turns out that the requirements of the regulatory framework have not been fulfilled, regarding the legal responsibility of borrowers who have received funds through sub-loan agreements to return the borrowed funds in accordance with the relevant agreements and to submit reports on the state of the loan and its use, according to the requirements determined

by the Ministry of Finance.

The level of returns from sub-loans is considered low in terms of the obligation to fulfill the conditions of the relevant agreements. Out of 91 projects for which the State Budget has the right to collect throughout 2021, only 27 have been collected in small amounts.

From the audit of the rights to collect from the guarantee relations, it has resulted that for 2021, the state of obligations related to the state guarantees that the beneficiary entities have to the state has increased from 15,885 million ALL to 17,414 million ALL, with an annual increase of 1,529 million ALL. It should be noted that almost all payments for the reduction of the guaranteed stock are attributed to the payments made in the 2021 State Budget.

Table no. 72 Stock of obligations from guarantee relations 2018 – 2021

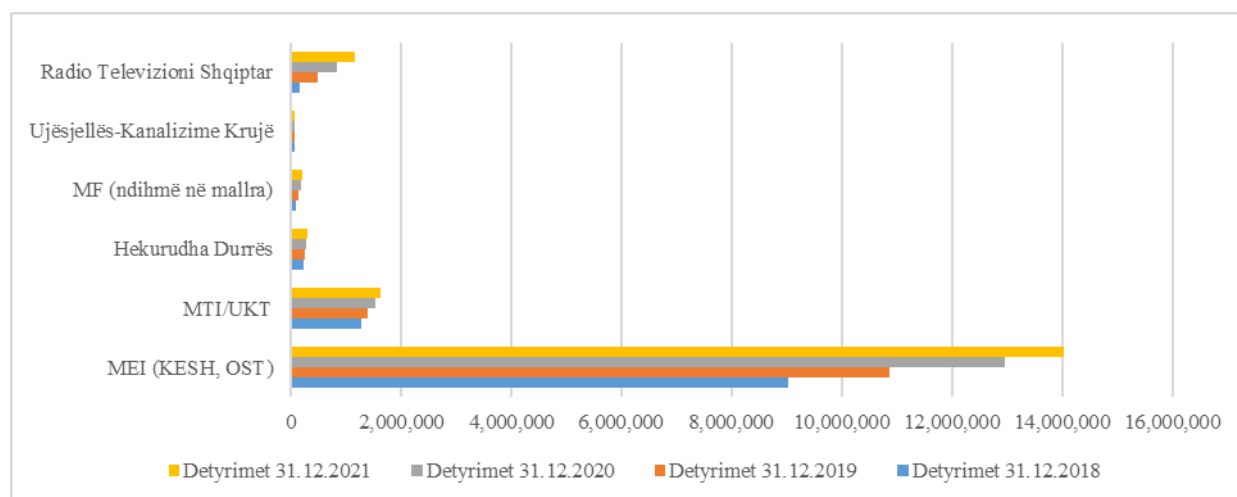
thousand ALL

| Institution/project | Liability 31.12.2018 | Liability 31.12.2019 | Liability 31.12.2020 | Liability 31.12.2021 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Ministry of Energy and Industry (KESH, OST) | 9,025,642 | 10,870,489 | 12,968,270 | 14,040,954 |
| Electrification of Rural Areas | 658,915 | 828,829 | 1,002,646 | 1,141,750 |
| 400 KV Tirana-Podgorica I Transmission Line | 27,660 | 37,586 | 52,912 | 63,834 |
| Transmission Line 400 KV Tirana-Podgorica II | 650,661 | 960,796 | 976,024 | 952,827 |
| TEC-i Vlorë | 4,465,018 | 5,222,945 | 5,879,703 | 6,277,091 |
| Transmission, Distribution of Energy | 1,815,979 | 2,321,047 | 2,818,323 | 3,119,622 |
| Hydropower plant on the Drin River | 371,759 | 477,481 | 560,467 | 616,463 |
| Power Transmission Substation | 1,034,998 | 1,021,161 | 1,037,346 | 1,012,691 |
| KESH's restructuring plan | 0 | 0 | 640,850 | 625,619 |
| Energy efficiency project | 652 | 644 | 0 | 231,056 |
| Ministry of Transport and Infrastructure/UKT | 1,285,030 | 1,390,135 | 1,536,390 | 1,621,144 |
| Water Supply of Tirana II | 783,343 | 849,735 | 941,285 | 995,140 |
| Waterworks of Tirana I | 493,283 | 532,108 | 586,682 | 617,781 |
| Rehabilitation of the water network in Tirana | 8,404 | 8,292 | 8,424 | 8,223 |
| Durrës Railway | 238,498 | 257,687 | 284,291 | 299,311 |
| Rehabilitation of the Durrës Railway | 238,498 | 257,687 | 284,291 | 299,311 |
| Ministry of Finance (aid in goods) | 94,409 | 129,976 | 185,695 | 218,484 |
| Krujë Water-Sewage Company | 59,548 | 63,739 | 69,783 | 73,005 |
| Albanian Radio Television | 165,685 | 486,821 | 840,635 | 1,161,744 |
| TOTAL | 10,868,812 | 13,198,847 | 15,885,064 | 17,414,642 |

Source: MFE data processed by ALSAI

Obligations as a result of payments made by the State Budget for the year 2021 have been accumulated to the greatest extent by private companies with state-owned capital in the energy sector, in the amount of 1,073 million ALL. During the year 2021, it is established that the State Budget has made payments as a result of the insolvency of Albanian Radio and Television, increasing the stock of liabilities by 321 million ALL. In the water supply sector for projects in Tirana Waterworks and Sewerage, the situation is problematic, putting the State Budget at risk for making payments that have failed to be made by this beneficiary of the guarantee and increasing obligations in the amount of ALL 85 million.

Chart no. 21 Stock of obligations from guarantee relations grouped 2018 – 2021



Source: MFE data processed by ALSAI

The audit found that the legal provisions for the return of the state guarantee of the loan from the beneficiary have yet to be fulfilled, as long as the stock of liabilities has not only not decreased during 2021 but has also increased by 1,529 million ALL.

The level of returns from guarantees is considered low in terms of the obligation to fulfill the conditions of the respective agreements. Out of 26 projects for which the State Budget has the right to collect, during the year 2021, only eight were collected in small amounts from UKT, TAK, Albtelecom, and KESH.

From the audit of the rights to collect from other state loans, in connection with the confirmation of the state of the obligation that the beneficiaries of the sub-loan or guarantee agreements have towards the State Budget, it was found that for the loan with identification number 88, according to the debt register, there are obligations on 31.12.2021 from different beneficiary entities. This loan between Medio Credito Centrale (the creditor) and the Albanian Government (the borrower) was signed on 07.06.1998 and registered as a state loan. The obligations that exist only for this loan for ten beneficiary entities on 31.12.2021 are presented in the amount of 3,344,515 euros.

Developments of Sovereign Guarantees 1 and 2 for 2021

From the audit of the progress of the Sovereign Guarantee No. 1 (GS1), it results that until 31.12.2021, the value of loans approved by the 12 banks signing the agreements is in the amount of 5,901,305 thousand ALL, of which 5,333,740 thousand ALL have been disbursed through 492 contracts approved by the end of the period.

Of the 11 billion ALL of the funds approved for GS1, around 54% were used, for an amount of 5.9 billion ALL, and the banks that have used the guarantee scheme the most (in absolute value) are BKT, Raiffeisen Bank and OTP Bank. The loans approved by these three banks constitute almost 60% of the total loans approved under this guarantee scheme. This scheme has benefited businesses in sectors of the economy such as trade, production, tourism, media, services, education, construction, mining, extractive and processing industries, etc., of which there have been problems with only one entity that has experienced a 120-day delay in an

installment payment. MFE has not continued with the payment of the obligation, replying that ABI Bank needs to take sufficient measures to collect the obligation according to the terms of the agreement.

The value of loans approved by second-level banks under the Sovereign Guarantee 2 (GS2) scheme increased by approximately 937.25 million ALL in December 2021, with eight new contracts signed. The total amount of disbursements increased by \$328.75 million. The value of disbursements increased by ALL 328.75 million. The bank that provided the most significant value of approved loans is ABI (around 594 million ALL), followed by Raiffeisen Bank (about 220 million ALL). At the end of December 2021, the value of the loans approved by the 12 banks that signed the results of the agreements was a total of 18,147,766 thousand ALL, of which 17,469,701 thousand ALL, or 96%, had been disbursed through 605 contracts (loan contracts, Line of Credit or Overdraft).

GS2, until the end of December 2021, has been used to the extent of about 73% (Value of approvals against the total of 60% guaranteed), where the banks that have been most active in its use are ABI and Raiffeisen Bank, based on the fact of the use of the initial limit value and the reallocated one. This scheme has credited businesses in sectors of the economy such as trade, production, tourism, media, services, construction, the processing industry, and transport.

Regarding this guarantee, problems have been encountered with a subject, which, according to the bank, has not made the payment of the loan obligations on time, and MFE has not continued with the payment of the obligation due to the claim of not exceeding the deadline.

From the audit carried out at the Bank of Albania, it was found that for auction no. 1919, dated 17.08.2021, on the auction of treasury bonds with a maturity of 3 months, the amended official notice for the auction was published on 16.08.2021, 1 working day before the date of the auction, not in accordance with article 6, point 1, letter "f" of Instruction no. 30, dated 26.12.2013, "On the issuance by the government of the Republic of Albania of treasury bonds in the form of a register," as amended.

The Bank of Albania has requested the issuance of debt securities to cover the resulting negative revaluation reserve, requesting the coverage of an additional value as the difference between the currently issued value and the request for issuance within the month of April 2021. of the Ministry of Finance and Economy with letter no. 2888 prot. BSH dated 16.06.2021, the Bank of Albania was notified that the Ministry would issue securities with an issue date of 21.06.2021 and a maturity date of 20.12.2021. For the above reasons, it is established that the deadline set for the coverage of revaluation losses, since the revaluation reserve appears negative, has not been implemented since the coverage of the additional loss of 2020 was covered only in June 2021, while according to Article 64 of the law " For the Bank of Albania," as amended, this financing should have been done within the month of April.

II. FINANCIAL MANAGEMENT AND INTERNAL CONTROL

ALSAI, through its audits, has focused on evaluating the effectiveness of the internal public financial control system, the compliance of the audited entities' activity with the legal framework, the quality of financial reporting, and issues related to value for money. In addition to repeated issues regarding deficiencies in the planning and monitoring of the budget subsystem, our audits have resulted in a number of findings in the field of accounting and financial statements, administration of public expenditures, implementation of public contracts, procurement procedures with budget funds, as well as in the field of concessions, arrears, fiscal administration, etc.

This report analyzes the internal control systems of the general government units of the public sector, for the year 2021. According to ALSAI's approach, effective systems for managing public finances are essential for the provision of sustainable and transparent government policies and public services. Sound policies for budget management, internal control, and auditing, public procurement, debt, public-private partnership or subsidies, etc., to ensure a more economical, efficient, and effective distribution, as well as the fairest and justified use of limited public resources. Effective financial control represents a key reforming step for establishing budget discipline, increasing managerial responsibility in managing public funds, implementing internal financial control standards and strengthening capacities for the internal audit function, etc.

Through this report, we aim to evaluate the level of implementation of the management principles of the budget system by the general government units, such as transparency, predictability, inclusiveness, fiscal discipline in accordance with macroeconomic stability, sustainable economic and social development, budget execution control and how the budget program's policy objectives have been implemented.

To achieve this, ALSAI has analyzed the Annual Report "*On the annual budget, the macroeconomic and fiscal situation for 2021*", prepared by the Council of Ministers and presented to the Assembly of the Republic of Albania. This report also includes the Annual Report "*On the Operation of Internal Public Financial Control System in General Government Units*," which is filed annually with the Government by the minister responsible for finance, in accordance with Article 18, point 3, of the Law on Financial Management and Control.

As for ALSAI's perspective, the monitoring of progress in the field of Public Internal Financial Control (PIFC) and reforms in this field have not been considered as a technical issue but rather as part of a broader spectrum of public administration reform, changes in the budget system, as well as the consolidation of the management and control system, etc. Analyzed from this point of view, ALSAI has recommended strengthening coordination, monitoring, and reporting mechanisms, aiming for a more proactive role of the structures of the Ministry of Finance and Economy in terms of providing methodological instructions and reviewing the quality of the implementation of the PBFC.

The EC Progress Report for 2021¹⁷, in relation to "*Chapter 32 - Financial Control*", stated that:

¹⁷ https://neighbourhood-enlargement.ec.europa.eu/index_en

EC, Albania 2021 Report, Strasbourg, 19.10.2021 SWD(2021) 289 final, page 64

"...Some progress was made during the reporting period, especially with the approval of a policy document for the strengthening of public internal financial control (PIFC), instructions on delegation of financial responsibilities, guidelines for the monitoring and reporting on follow-up of internal audit recommendations, and revision of external audit quality control and quality assurance procedures. The proper and effective functioning of internal control is not yet ensured across budget entities. Since only partial progress was made with the Commission's 2020 recommendations, these remain valid.

In the coming year, Albania should, in particular:

- implement the instructions on financial delegation of responsibilities and issue instructions on delegation of management responsibilities with the intent of improving managerial accountability;*
- monitor and follow up on the implementation of recommendations made in the annual PIFC report across budget institutions;*
- increase parliamentary scrutiny of audited bodies in implementing external audit recommendations through more frequent parliamentary hearings and establishing a parliamentary monitoring framework to regularly assess government's follow-up action."*

Our approach is to present to the Assembly an independent and realistic opinion on the state of Public Internal Control Systems and Public Finance Management in the country. For this reason, ALSAI's report focuses on a consolidation of information from:

- i. The results of the ALSAI's external audits on the quality of the internal control system, the internal control framework harmonized with the principal risks of public entities. These results have been analyzed through external public audit mechanisms in central governance institutions and their leaning agencies, in local governance institutions, special fund structures, public sector agencies for the year 2021, focusing on the assessment of operational and strategic risks, minimization of risk for extra-budgetary actions, avoiding misappropriation, irregularities or fraud; designing, implementation and effectiveness of relevant internal controls, as well as governance integrity and recommended improvements;*
- ii. The consolidated Annual Report on the state and quality of the internal public financial control system, drafted by the Ministry of Finance and Economy for the year 2021;*
- iii. Analytical evaluations of the results of the Self-Declaration Questionnaires drafted by the general government units, both for the issues of Public Finance Management, Control, and Accounting in the public sector, as well as the measurements for the Performance Indicators of Public Units. This assessment of the performance of these units on the implementation of the internal control system, as well as their ranking, is based on 18 performance indicators;*
- iv. Findings and observations regarding the stage and Accounting and Financial Statements Systems of the state sector, procedures, and controls are key for greater reliability of financial reporting, the quality of general information in the financial statements of economic entities, and focus on their system of control, in the function of the sustainability of public institutions, as well as improving the reliability of financial reporting;*
- v. External supervision and assessments on the stage of development of the internal audit structures in general government units, the quality of public internal audit, to guarantee and perform professional audit services with quality and integrity, in accordance with accepted professional standards.*

ALSAI's conclusion, which is based on the general analysis of the evidence mentioned above and indicators, as well as the report on the functioning of the Internal Public Financial Control system in the General Government Units, in reference to the level of implementation of the 17 principles of internal control, is that: *"The internal control system in the units of the general*

government for the year 2021 is evaluated to be partially effective", where the main influence on this result is occupied by the deficiencies related to the assessment and reporting at the right time of problems regarding the internal control system, which require the deepening of reforms in the field of internal control.

Based on the Report "On the functioning of the internal public financial control system in the general government units for the year 2021"¹⁸, as well as on the audits conducted by ALSAI, it is recommended that managerial commitment and responsibility should be increased for the improvement and implementation of an effective system of financial management and control, which is a legal obligation of general government units, as well as any unit that spends public funds.

The issues of financial management and internal control are considered important by ALSAI, defining them as important audit issues, as they enable and influence the efficient and effective provision of public services through a system of policies, procedures, activities, and controls for planning, directing, and controlling financial resources. Responsibilities for financial management include, but are not limited to:

- a) preparation, implementation, internal financial control, monitoring, accounting, and reporting of the budget of the general government unit;
- b) ensuring the efficient, effective, and economical use of the public resources it manages.¹⁹

Internal public financial control includes all activities, with the aim of controlling income, expenses, assets, and liabilities of public units, as well as central harmonization and coordination of financial management and control, as well as internal audit.

More specifically,

1. Assessment of the state and quality of the public financial internal control system, based on the consolidated Annual Report of 2021 and the results of the Self-Assessment Questionnaires in compliance with the 17 principles of the COSO model on internal control:

According to the Ministry of Finance and Economy Report, from the analysis of the responses to the self-assessment questionnaires on the financial management and control system, it results that, out of 17 indicators (principles) in total, 13 are partially effective and 4 are considered effective, indicating that 76% of these principles are implemented with weaknesses and deficiencies. This result explains that the internal public financial control system continues to show operational deficiencies, with an impact on the effectiveness of the use of public resources managed by general government units and with an even weaker assessment level for local self-government units. The lack of timely assessment and reporting of the problems of the internal control system has affected the evaluation of the effectiveness indicator.

Table no. 73 Assessment of questionnaires

| Principle | Result |
|-------------------------------|--------|
| I. Control Environment | |

¹⁸ "Report on the operation of the internal public financial control system in the general government units for the year 2021" prepared by the General Directorate of Harmonization of Internal Public Financial Control, in the Ministry of Finance and Economy, May 2022.

¹⁹ Law no. 9936, dated 26.06.2008 "On the management of the budget system in the Republic of Albania", amended, Article 19.

| | |
|--|----------------------------|
| Principle 1-Public unit Demonstrates commitment to integrity and ethical values | Effective |
| Principle 2-The Head/NA/ Board or Council of Directors demonstrate independence and accountability in the exercise of responsibility for supervision | Partially effective |
| Principle 3-The Head/NA establishes the organizational structures, reporting lines, authorities and responsibilities | Partially effective |
| Principle 4-Public unit demonstrates commitment to the realization of competencies | Partially effective |
| Principle 5-Public unit acts in accordance with managerial responsibility | Partially effective |
| II. Risk Assessment | |
| Principle 6-Public unit specifies objectives as a basis for identification and assessment of risks related to these objectives | Partially effective |
| Principle 7-Public unit identifies and analyzes risks for achieving objectives | Partially effective |
| Principle 8-Public unit assesses the possibility of fraud risk | Partially effective |
| Principle 9-Public unit identifies and analyzes significant changes | Partially effective |
| III. Control Activities | |
| Principle 10-Public unit selects and develops control activities | Effective |
| Principle 11-Public unit selects and develops general technology control activities | Partially effective |
| Principle 12-Public unit establishes control activities through policies and procedures | Effective |
| IV. Information and Communication | |
| Principle 13-Public unit obtains, generates and uses relevant qualitative information | Partially effective |
| Principle 14-Public unit uses internal communication | Effective |
| Principle 15-Public unit uses external communication | Partially effective |
| V. Monitoring | |
| Principle 16-Public unit selects, develops and performs continuous and/or special evaluations of the internal control system | Partially effective |
| Principle 17-Public unit assesses and communicates deficiencies | Partially effective |
| IN TOTAL | Partially effective |

Source: Data from ALSAI's audit report in MFE

After evaluating the work of the ministry responsible for finance for the preparation of the consolidated annual report, ALSAI expresses reservations on the assessment of the internal public financial control system, as the audit of the procedures for the preparation of the 2021 annual report of the public internal financial system on the functioning and progress of the financial management and control system, evidences the fact that this document is not comprehensive in terms of the number of reporting entities part of the general government units, and as a result, we cannot have an accurate and complete assessment on the system, since:

a. *In the Annual Report, there is a lack of:*

- *a general assessment of the quality of the internal control systems;*
- *formulation in a clear and standardized language of a general opinion on the assessment of the real and overall situation of the public internal control system, of the level of implementation of the requirements of the financial management and control system in the general government units, to increase accountability and ensure sound financial management and good governance, improving efficiency and effectiveness in the management of public funds, although it elaborates on the issues related to these components and subsystems of the public sector;*

- a standard format/ document type/ structure of the annual report, approved by legal/ sub-legal act, as well as *the lack of the "opinion" section*, where the objective and professional assessment on the evaluation of the performance of public units based on in the 18 indicators, to provide reasonable security in all material aspects, with the defined criteria;

There is a paragraph given from the Ministry of Finance and Economy in the executive summary of the report, which states:

*From the general analysis of the 17 principles of internal control, **we find that the internal control system for 2021 is partially effective**, where the main influence on this result is the deficiencies related to the assessment and timely reporting of the problems of the internal control system. These problems must be transmitted through the established reporting channels to the relevant internal and external parties to enable the public unit to address them immediately. In this context, it is necessary to take effective measures to raise managers' awareness of the issues identified through reporting and monitoring activities²⁰.*

We emphasize that, since 2018, the reports drawn up by the MFE have almost the same linguistic and semantic/content composition, being content with defining this system as "*partially effective*", without distinguishing it. Thus, in the annual report of the PIFC in 2018, the Responsible Structure for the Harmonization of the Internal Financial Control stated that "Based on the self-assessment analysis as well as the continuous monitoring of the Responsible Structure for the Harmonization of the Internal Financial Control staff, *the internal control systems in the units of general governance are assessed as partially effective*, based on the 17 principles of the COSO model".

Referring to the methodology approved by the ministry responsible for finance (Chapter I, paragraph 1.2.3, "Activities of the Responsible Structure for the Harmonization of the Internal Financial Control for performing the quality assessment of the ICS," of the Quality Assessment Methodology of the Internal Control System, approved by the Order of the Minister of Finance no. 311, dated 23.12.2020, as amended), the internal control system is considered "effective" if 70% of the questions, part of the principles, are characterized by well-argued responses and supported by evidence that reflects an effective financial management and control system. It is considered "partially effective" if 40%-70% of the questions, which are part of the principles, are characterized by well-argued and evidence-based responses that reflect an effective financial management and control system, and "not effective" if 0%-40% of the questions, which are an integral part of in principle, are characterized by well-argued and evidence-based answers that reflect the effectiveness of financial management and control system.

Based on the audit group finding, *the overall effectiveness of the internal public financial control system for the year 2021 has not been evaluated with an indicative figure²¹, to express where this indicator lies between the two limits of the 40%-70% interval and to further explain how close this figure is to the lower and upper limits of this range, or how far it is shifted from the average of the performance indicator. The identification and ranked (pointed) reporting of the real indicator on*

²⁰ MFE, consolidated report for SICPF year 2021, Tirana 202, page 5

²¹ In the PIFC consolidated report for 2017, it is stated that "From the general analysis of about 130 public units, it was concluded that the overall effectiveness of the Financial Management and Control systems in these institutions for 2017 is 3.41/4.001, showing progress compared to 2016, which was 3.16/4.00."

the real effectiveness of the internal public financial control system creates the opportunity for real evaluations, to be able to make comparisons with previous years, and to further express whether there has been any progress in terms of implementation in practice of financial management and control instruments, whether this indicator is increasing or decreasing.

Appropriate classification of expenses, problems with asset management, unpaid obligations, irregularities in public procurement and contract management procedures, failure to collect accounts receivable, etc., have been some of the most frequent deficiencies identified, which have also been associated with other deficiencies but with a lower frequency.

b. While auditing the annual report preparation procedures, the audit team found that the self-assessment questionnaire *had not been sent to all general government units*, as stated in article 4, point 4 of Law no. 10296 dated 08.07.2010 "On financial management and control." Special funds units, as well as other entities, such as joint-stock companies (*where the state has 100% of the capital or the owning part of the capital such as EDO, TSO, AEC, etc.*) and spending units with a large budget, were not included. All of the above brought the fact that, even though the report is supposed to be comprehensive, it doesn't include all the units from the public sector, and therefore, we cannot have an accurate assessment of the financial management and control system. The self-assessment questionnaires were sent to only a part of public entities, not fulfilling the legal obligation derived from article 18, point 1 of Law no. 10296 dated 07.08.2010, amended, a finding which was also expressed in the previous audits of ALSAI²².

From the audit carried out in the Ministry of Finance and Economy, it is found that, referring to the Treasury system, there are over 1400 public entities that operate with this system, while the self-assessment questionnaires were only sent to 154 public entities, not including all the units of the general government, who have the legal obligation to make a self-declaration about the quality and condition of the systems of internal controls of the public unit it covers, for the previous year. On the other hand, only 138 self-assessment questionnaires²³ were processed by MFE, and the analysis presented in this report is based on the consolidation of data from the annual activity reports of 128 internal audit units operating in the public sector²⁴. This has resulted in a number of units being overlooked from the responsibility of preparing self-assessment questionnaires and reporting on the development stage of internal control systems.

11 Municipalities and District Councils, 1 Ministry, and 4 Independent Institutions (3 of which are newly created and had no activity for 2021) still need to fulfill the reporting obligation, pursuant to the Order of the Minister of Finance no. 108, dated 17.11.2016 "On the approval of the financial management and control manual."

c. Incomplete view of the data handled; inconsistency in the sections/chapters of the Report, in terms of the number of units that have reported completing the self-declaration questionnaire, leading to confusion in the reported data, etc.

d. The audit team found that, in some cases, the number and sequence of the performance indicators of the questionnaires sent by the entity to the *Responsible Structure for the Harmonization of the Internal Financial Control* differ from the register with which the

²² ALSAI Report on GDHPIFC 2022.

²³ Page 5 of the MFE Consolidated Report on SICPF, 2021

²⁴ Page 5 of the MFE Consolidated Report on SICPF, 2021

Responsible Structure for the Harmonization of the Internal Financial Control concludes their assessment. This has cast doubt on whether the assessment corresponds to the question number of the questionnaire that the entities have completed or the question number of the register of the Responsible Structure for the Harmonization of the Internal Financial Control. The audit team found this irregularity in different public entities, such as *the General Directorate of Customs, the State Committee of Cults, the Mandatory Health Care Insurance Fund, the State Authority for Geospatial Information, the Albanian Road Authority, the General Directorate of Taxes, and the National Water, Sewerage Agency, and Waste Infrastructure.*

e. For 2021, 109 public units have submitted *the action plan for the establishment of the financial management and control system* to the structure responsible for the harmonization of financial management and control, which makes up 70% of the number of general government units (GGUs), *that have been sent requests for completing the questionnaires, the report, and the declaration on the quality of the ICS.*

f. *From the verification of self-evaluation questionnaires, internal audit reports, and evaluation of indicators,* it results that, in the evaluation of indicators, more units are presented as they are spending units and are evaluated with points from the other two general directorates, responsible for performance evaluation, but since they do not receive the audit service in any of the forms provided for in Law no. 114/2015, they are assessed with zero points in total. These units should have received audit services;

g. *From the verification of the accuracy of the assessment of the four indicators,* it resulted that in the report of the Assessment of the Internal Public Financial Control System for 2021, drawn up by the Responsible Structure for the Harmonization of the Internal Financial Control, no assessment was made in relation to these four indicators to assess the performance of internal audit units (IAUs). The three structures responsible should have given a unified opinion/judgment for the performance evaluation of public units, or, at least, each of the responsible structures should have given an opinion/judgment based on the 18 performance indicators²⁵.

h. The findings of the Internal Audit units, which, according to the report, are reflected separately according to the classification of institutions in relation to the stage of controls, present the situation as below:

- *In line ministries: "...internal control systems, in some cases, do not function effectively as a result of deficiencies in the implementation of rules and procedures...";*
- *In local governance units: "...material weaknesses have been identified that must be addressed by the Head of the entity. There is a need for the drafting and updating of regulations, a more precise division of responsibilities, etc.";*
- *Spending units with a large budget: "...weaknesses are evident in several links, such as in the implementation of policies and procedures.";*
- *In independent institutions: "...they are efficient, but they constantly need to improve procedures";*
- *In joint stock companies: "...the internal control systems in the audited entities are ineffective and do not have approved procedures for their operation. Weaknesses become even more visible in the conditions of the existence of an extremely complex legislative framework in which these companies operate.".*

²⁵ ALSAI - GDHP/IFC

- i. From the examination of the results of the Periodic Quality Assessment Process, finalized by the Ministry responsible for Finance in 2021, in 18 general governance units, the internal control system results were found to be "partially effective" in 12 of them, such as *Ministry of Agriculture and Rural Development, Ministry of Justice, Ministry of Tourism and Environment, Kamëz Municipality, DPA, Ombudsman, Krujë Municipality, ASPA, Academy of Sciences, Presidency, Mat Municipality, Gramsh Municipality*) and "not effective" in 4 of them, such as *Himarë Municipality, Rrogozhinë Municipality, Vorë Municipality Commissioner for Protection from Discrimination*, where the need for increasing the awareness of the high management level in undertaking measures to address the identified deficiencies is evident, and implementation of financial management and control instruments.
- j. Based on the review and assessment of 17 principles related to the five components of financial management and control, referring to the data processed by the MFE report, ALSAI's evaluation of the consolidated public internal financial control system is presented in a summarized form, as below:

Table no.74 Principles and components of financial management and control

| Component/ Principle | | Analysis and evaluation of the 17 principles of the control system | | |
|---------------------------------|--------------|--|------------------|---------------|
| | | Effective | Partly effective | Not effective |
| 1.Control environment | 5 principles | 1 | 4 | * |
| 2.Risk assessment | 4 principles | * | 3 | 1 |
| 3.Control activities | 2 principles | 2 | 1 | * |
| 4.Information and communication | 3 principles | 1 | 2 | * |
| 5.Monitoring | 2 principles | 0 | 2 | * |

Source: Data from ALSAI's audit report in MFE

Thus, only 4 out of 17 principles of the COSO model (or 23.5% of them) are considered and assessed as "effective," 12 of them "partly effective," and one of them as "not effective."

It is established that, with the exception of the *control environment* and *communication & information* components, which are evaluated with average results (from partially effective to effective), *risk management*, *control activities*, and *monitoring* continue to suffer from numerous problems and have shown no improvement tendency.

ALSAI considers that, during 2021, as in previous years, the *risk management* component continues to remain problematic at different levels of central governance units and even more challenging in extra-budgetary units, local governance units, special funds units, etc., which shows that the public sector continues to remain exposed to possible events that negatively affect the achievement of the unit's objectives, despite the fact that the implementation of an effective internal control system remains a legal obligation.

Also, from the review and evaluation of the consolidated report, we have observed that:

In the consolidated report of ICS, the terminology used is evasive since, although it is accepted in the *Executive Summary* of the Consolidated Report that "*The low results show that the risk management component has not yet been fully implemented in the public sector and for three years in a row these results have been at low levels*"²⁶ and further "*local self-government units continue to have the lowest rating*," on the other hand, the evaluation indicators of this indicator (Component II, pages 29-31 of the report), are considered partially effective.

²⁶ MFE Report, Executive Summary, Tirana, May 2022

Considering the four principles that measure this component (principles no. 6-9), from *the Responsible Structure for the Harmonization of the PIFC*, and the analysis of the issues addressed in Chapter II, point 2.1, the assessment is unrealistic and unsubstantiated, since:

✓ Regarding the auditors' professional judgment, the report prepared by MFE, in the general evaluation of Principle no. 7 - "The Public Unit identifies and analyzes the risks for achieving the objectives," was assessed as "partially effective," but on the other hand, from the examination of the detailed part, it is concluded that we do not find a proper correspondence of this assessment with the reality of the audited entities. More concretely:

"Analyzing this principle results that, for 2021, the assessment trend remains the same as the two previous years, with the institutions having partially defined well-organized and functional mechanisms of the risk management process... Moreover, for a large number of entities, despite the planning and definition of objectives in the strategic or operational plan, the implementation process in the practice of risk assessment and management continues to be presented at unsatisfactory levels. From the analysis of the answers given in the self-assessment questionnaires, there is a lack of commitment from all structures within the public entity regarding the clear identification and assessment of risks, as well as their presentation in the risk register or its further use in the realization of different activities and decision-making processes in the institution."

✓ Even regarding Principle no. 8 – "The Public Unit assesses the possibility of the risk of fraud" which has been evaluated as "partially effective," the comment of *the Responsible Structure for the Harmonization of the PIFC* is that:

"From the responses to the self-assessment questionnaires, public entities partially consider the possibility of fraud risk but encounter difficulties in performing periodic assessments of exposure to these risks due to the lack of predictive ability, commitment, and awareness of the benefits of this process," and following, "only in a few cases (mainly line ministries) do senior management and staff consider fraud risk assessment as an integral part of the risk management process, which helps the unit achieve its objectives and makes this process more effective. In general, there are no specific procedures for assessing the risk of fraud in public entities, and no concrete measures are taken to address the risk of financial reporting fraud, non-financial reporting, acquisition of assets, and illegal acts (including corruption), meanwhile, the legal basis on which the entities rely in cases of fraud remains the whistleblower law."

According to ALSAI's audit reports, the weaknesses are evident in most of the audited entities since the Risk Management Groups have not yet been created, risk registers do not exist, and this document formally exists in these units. Lack of participation of all structures within the public unit in drafting the consolidated risk register or its further use in the realization of various activities or as a mechanism in the decision-making processes in the institution has been frequently observed.

Regarding the practical implementation of principle no. 8, it is evident that the majority of public entities do not assess the possibility of fraud risk and do not carry out periodic assessments of exposure to these risks due to a lack of predictive ability, a lack of commitment, and a lack of awareness of the benefits of this process. In this way, it turns out that fraud risk assessment is not an integral part of the risk management process, which makes this process less effective, and as a result, this level of assessment should be corrected.

B. Through assessing the financial management and control system in the municipalities selected for technical assistance by the Local Finance Project, we have observed that "*...risk assessment remains the most complicated component for implementation for local governance units, within the framework of internal control.*" On the other hand, internal audit units in local government units "have identified *material weaknesses*"²⁷ in the internal control system, which should be addressed immediately by the holders/mayor. There is a need for improvements in necessary and essential instruments such as the drafting and updating of regulations, the precise definition of duties and responsibilities, the identification of risks, etc.

C. Regarding "*Systems Risk Assessment, Audit Findings, and Recommendations*," the Report groups institutions into the Ministry of Line, Local Self-Government Unit, Expenditure Unit with a large budget, Joint Stock Companies, and Independent Institutions. After presenting the risks according to these groupings by MFE, the conclusion is reached (page 56) that: "Although it is an essential element on which every stage of the audit process relies and has a significant impact on achieving audit objectives, systems risk assessment is not done in full accordance with the requirements of the standards and is not understood by the auditors themselves, which has resulted in a low level of implementation in practice. This shows deficiencies in the guidelines and methodologies for the risk-based audit approach, and the competencies and skills of the auditors are insufficient to ensure the performance of high-quality and effective audits". As stated in the letters "b" and "c," article 24 "Responsibilities of the structure responsible for the harmonization of internal audit" of Law no. 114, dated 22.10.2015, amended, it is the duty of the DH/IA to draft and propose the improvement of the legal framework for internal audit in the public sector; as well as to formulate and propose policies, manuals, procedures, instructions, and regulations for internal audit.

In conclusion, from what has been analyzed above, we do not find a proper correlation of the status of this assessment (ranked "*partially effective*") with the real state of this component in the entities audited by ALSAI and for the entire evaluation of the public entities.

The system analysis, according to the 17 principles of financial management and control, based on the self-assessment of public units, has been evaluated as "*partially effective*" in the vast majority of the principles and components of the COSO model, but from the results of the audits carried out by ALSAI in public entities, this component is rated "*not effective*." As a result, the statement in the executive summary and the aspects addressed in chapter II of this report presented by MFE are not in harmony and in a logical line of reasoning.

Weaknesses are also reflected in the field of *monitoring*, supervision, and evaluation of the financial management and control system. This component has the lowest rating, which indicates a lack of self-regulating mechanisms (internal audit, lack of controls by managers, etc. 100% of the principles that make up this component have been assessed as "*partially effective*."

b. Analysis of the 18 main performance indicators of the General Government Units that are performed by the three responsible structures of the Ministry of Finance and Economy;

Regarding the performance indicators, MFE has not foreseen the creation of a new passport of indicators, where the same 18 (eighteen) indicators on planning, implementation, and

²⁷ MFE Report, pages 60-61

execution of the budget, as well as indicators for the implementation of internal control systems, have been analyzed for this year as well.

Table no. 75 Performance indicators

| Responsible unit | Performance indicators | Performance criteria and evaluations | | | | |
|--|--|--------------------------------------|---------------|----------|---------|------|
| | | Assessment (1-4) | Realization % | Pleasing | Average | Weak |
| General Directorate of Budget | 1. Realization of budget expenditures (in %) | 2,45 | 61,2 | | ✓ | |
| | 2. Realization of budget expenditures according to economic classification (in %) | 1,9 | 47,5 | | ✓ | |
| | 3. Reduction of the level of arrears | 3,33 | 83.2 | ✓ | | |
| | 4. Realization of capital expenditures | 0.98 | 24 | | | ✓ |
| | 5. Multi-year capital investments are committed to the system according to the contractual disbursement plan | 3.22 | 81 | ✓ | | |
| General Directorate of Treasury | 1. All invoices have been sent on time for payment to the relevant branch of the treasury | 2.1 | 52 | | ✓ | |
| | 2. The invoices of arrears have been sent in time to the relevant branch of the treasury for registration in SIFQ as expenses of future periods (economic account 486) | 1.8 | 45 | | ✓ | |
| | 3. All contracts have been sent on time to the relevant branch of the treasury | 1.08 | 27 | | | ✓ |
| | 4. Number of unauthorized procurement orders | 3.9 | 97 | ✓ | | |
| | 5. Advancement limit of monthly cash plan | 3.94 | 98 | ✓ | | |
| | 6. Presentation, signing and compliance with the deadline for submission of financial statements according to the legal framework | 3.9 | 98 | ✓ | | |
| Directorate of Harmonization of FMC | 1. Quality drafting of the Financial Management and Control Action Plan and submission within the established deadlines | 1.9 | 48 | | ✓ | |
| | 2. Comprehensiveness and regularity of annual reporting on the internal control system | 3 | 75 | ✓ | | |
| | 3. The effectiveness of the basic mechanisms of managerial accountability in public sector units | 2.95 | 74 | ✓ | | |
| Directorate of Harmonization of IA | 1. Organization of IAUs and IA capacities | | | | | |

| | | | | | | |
|--|--|--|--|--|--|--|
| | 2. The quality of preparation of strategic and annual planning by IAUs | | | | | |
| | 3. The quality of the preparation of the Annual Report of IAUs | | | | | |
| | 4. Implementation of the recommendations of IA | | | | | |

Source: Prepared from ALSAI, according to the Consolidated Report on SPIFC

From the processing of the above information, it results that:

✓ For the package of 14 main performance indicators evaluated and performed by the three responsible structures of the Ministry of Finance and Economy, 7 indicators have been evaluated as "satisfactory" or "effective," 5 indicators are "partially effective," and 2 indicators are considered "ineffective," respectively "Realization of capital expenditures" (under the responsibility of the General Directorate of the Budget) and "Quality drafting of the Financial Management and Control Action Plan and presentation within the specified time limits" (under the responsibility of the General Directorate of the Treasury).

From the general analysis of these indicators, we have reached the conclusion that the above indicators are mainly related to the *control activity component*²⁸, including the necessity of written rules and procedures for the main processes such as procurement, contracts, spending orders, etc. It results that there are effective controls undertaken by public entities, however, in some specific indicators, there is a need to take measures for continuous improvements in the future, especially from local self-government units, commercial companies, extra-budgetary units of the central government, special funds units, etc.

✓ Taking into consideration the effects created by the COVID-19 pandemic, which has prevented the realization of work processes at full capacity, as well as the shift in focus and the level of commitment of all general government units (GNQP) included in the analysis, the SPIFC report has acknowledged that, for 2021, *there are some data deficiencies in the performance indicators, referred to during the study of the performance of the internal control system in these units.*

✓ According to data from CUHIA, only 68% of IAUs assess the adequacy of the established controls, while 32% of IAUs partially assess them. In this area, greater attention is required from both Heads of IAUs and auditors to receive the necessary training in this area.

✓ Regarding the preparation and delivery of the statement and the report, 13 entities have exceeded the legal deadline, such as the *Ministry for Europe and Foreign Affairs, the Agency for Dialogue and Co-governance, the Technical Secretariat of KEK, the Municipalities of Bulqiza, Dibër, Himarë, Kavajë, Konispol, Libohove, Malësi e Madhe, Rrogozhinë, Delvinë and Lezhë District Council.* Until the end of the audit period, no sanction/ fine had been imposed on any of these entities.

✓ For the year 2021, 13 units of the general government units²⁹ have not submitted the self-assessment questionnaires (Lezhë District, Municipalities: Bulqiza, Dibër, Himare, Kavajë, Konispol, Libohova, Malësi e Madhe, Rrogozhinë, Delvinë, Ministry for Europe and Foreign Affairs, Technical Secretariat of KEK, Agency for Dialogue and Co-governance,) have not met the requirements of Article 18, point 1 of Law no. 10296, dated 08.07.2010 "On financial management and control," which defines the obligation of the authorizing officer to file the

²⁸ Referring to the definitions of SPIFC of MFE, page 22

²⁹ SPIFC Report, Tirana, May 2022, Page 24

relevant statement and report on the quality and condition of the internal control system of the public entity it covers, which could change the overall assessment rate of the evaluated indicators. It turns out that the measure (fine) provided by article 29, point 1 of Law no. 10296 dated 07.08.2010 "On financial management and control," as amended, was not applied to these 13 subjects.

✓ From the evaluation of the 2021 results, we notice that there is a lack of information that must be collected and processed through self-assessment questionnaires. Referring to the information in table no. 14 of the consolidated report on SPIFC, information for evaluating the performance of at least 4 indicators is missing, not allowing a clear picture of the quality of the internal control system. Thus:

a) There is missing data regarding Indicator no. 3 "Reduction of the level of arrears" for 6 spending units, such as the *General Directorate of the State Police, the Guard of the Republic, the Ministry of Internal Affairs, the National Authority of Food, the Property Management Agency, the National Employment and Skills Agency, the Ministry for Europe and Foreign Affairs;*

b) There is missing data regarding Indicator no. 7 "Arrears invoices have been sent on time to the relevant branch of the treasury for registration in SIFQ as expenses of future periods (economic log 486)" for 122 spending units, such as *the Prime Minister's Office, the Presidency, the Informative Service of Albania, the General Directorate of Archives, the Academy of Sciences, the Albanian Telegraphic Agency, INSTAT, the School of Magistrates, as well as a significant number of regions and municipalities of the country, etc.*

c) There is missing data regarding Indicator no. 8, "All contracts have been sent on time to the relevant branch of the Treasury," for 15 spending units, such as *the National Center of Cinematography, the Competition Authority, the KKK, the Civil Society Support Agency, the Public Commissioners, the PPA, the Central Inspectorate, the Water Resources Management Agency, the Center against Violent Extremism, the Technical Secretariat of KEK, the Agency for Openness, Dialogue, and Co-governance, the National Agency for Diaspora, Elbasan District, etc.*

d) There is missing data regarding Indicator no. 9, "Number of unauthorized procurement orders," for 15 spending units, such as *the National Center of Cinematography, the Civil Society Support Agency, the Public Commissioners, the Technical Secretariat of KEK, the Elbasan District, etc.*

During 2021, the General Directorate of Harmonization of Internal Public Financial Control has reviewed the methodology for Monitoring the Performance of the Internal Control System in Public Units, approved by Order of the Minister of Finance and Economy no. 221 dated 01.12.2021 "For some additions and changes in Order 117 dated 01.04.2019 "On the approval of the methodology for monitoring the performance of the internal control system of public entities." These changes consist of the formats on how to report performance indicators, as well as the revision of the financial management and control self-assessment questionnaire.

The self-assessment questionnaire was revised to include questions related to the indicators of performance defined in the monitoring methodology as well as the PEFA1 indicators (Program of Public Expenditures and Financial Responsibility) to raise the awareness of institutions based on the assessment used by the Ministry of Finance and Economy and by donors.

The Report mentions that "Regarding the performance indicators, the creation of a new passport of indicators was not foreseen, where 18 (eighteen) indicators on planning,

implementation, and execution of the budget were analyzed for this year as well as the indicators for the implementation of internal control systems. Specifically, the methodology contains 18 performance indicators...."

The analysis presented in the report is based on the ranking of the institutions according to the points of each of the 18 performance indicators, where the maximum assessment is 72 points (18 indicators * 4 maximum points/ indicator). For a category of institutions, such as District Councils, the ranking was made by removing from the analysis a group of indicators for which data was missing. The maximum assessment for these institutions is 68 points, not 72, so this indicator is excluded from the assessment. Also, in Appendix 1, the report provides the List of Public Units, for which there was no data for some performance indicators" (specifically for indicators 3; 7; 8; 9).

From the audit, it was found that the report presents the analysis of the ranking of the institutions, but since the details of the performance indicators 15-18 (which belong to the indicators that evaluate DH/IA) are missing, we cannot express certainty if the assessment has considered these indicators as well.

The report mainly contains self-declaration-based information of the public units, and each issue highlights the situation/problems, but there is a lack of a unified opinion on the performance at the system level.

Aspects of Financial Management and Internal Control in the public sector, which are not reflected in the consolidated report of the MFE, and were found through ALSAI's audits

From ALSAI's audit results during 2021, there have been deficiencies that reflect an insufficient understanding of the principles and requirements of the legal framework, as well as entities formally preparing documentation only for reporting to the Ministry of Finance and Economy. In the following, we have presented the identified problems which, in our judgment, have not been reported by DH/FMC in the report prepared for the Assembly.

CONTROL ENVIRONMENT

- In the *Ministry of Internal Affairs*, it is established that there is no formalized *Code of Ethics*, but elements of the rules of ethics have been briefly included in its internal regulation act, as well as in the Minister's Orders on electronic communication and ethics, or the prevention of conflict of interest.
- The lack of an approved Code of Ethics has also been found in the *Ministry of Defense*.
- Through our audit, it was found that the *Ministry of Education and Culture* has not drafted a Code of Ethics, but the rules of ethics are fragmentally provided in article 41 of the internal regulation act.
- Through our audit, it was found that the *Agency for Rural Development and Agriculture* has not drafted a Code of Ethics, but the rules of ethics are provided in article 22 of the Internal regulation act.
- Based on the documentation made available by the *Ministry of Internal Affairs*, the meetings conducted by the Strategic Management Group do not result in being systematic and periodic.
- Regarding the audit period in the *Public Health Institute*, there is no documentation of meetings conducted by the Strategic Management Group (SMG). It is also established that, in

the composition of the Strategic Management Group, this state entity is not the institution's owner.

- Regarding the audit period in the *Ministry of Defense*, the meetings of the Strategic Management Group were not documented, contrary to the legal provisions.
- The same situation is presented in the *Hospital University Center "Nënë Tereza,"* where the Strategic Management Group has not documented any meetings, and it does not appear that any decision-making has been undertaken by this group.
- Through our audit of the *Agency for Rural Development and Agriculture*, it was found that the Program Management Teams have not been set up in the second-level spending units that implement a single budget program as a key component of the institutional organization in the preparation of budget requests.
- Regarding the audit period in the *Ministry of Education and Culture*, the meetings conducted by the Strategic Management Group do not result in being systematic and periodic.
- The *Commissioner for Civil Service Supervision* has not approved the Annual Work Plan related to the functioning of the Strategic Management Group, the activities and issues that will be analyzed and discussed by this group.
- In the *General Directorate of Probation Service*, the strategic management group has not been established at all.
- The *Ministry of Internal Affairs* operates based on the internal regulation act approved in 2019. It is established that, from the approval date of the organizational structure in 2018, until the date of approval of the current structure in 2021, the regulation act has not been updated in accordance to the structure and newly created positions. The entity's structure includes 171 employees in total, in the meantime, a significant number of vacancies is evident. Specifically, 26 such positions, of which 3 political functions and 23 civil servants (of these, 2 General Directors, 2 Directorate Directors, 3 Sector Managers, and 16 specialists), as well as staff turnover, a phenomenon which is ascertained for the entire audit period.
- The *General Directorate of the Probation Service* has not drafted internal regulations act to define the functional tasks of each directorate, sector and employees, in accordance with the structure, organization and functioning of the entity.
- The organization and administrative activity of the *Public Health Institute* is based on the internal regulation act, which has not been approved by the line ministry. Also, the internal regulations act has not been updated after the changes affecting the organizational structure.
- The changes affecting the organizational structure were not reflected in the internal regulation act of the *Ministry of Defense*.
- The changes affecting the organizational structure were not reflected in the internal regulation act or the Statute of the *Hospital University Center "Nënë Tereza,"* bringing deficiencies in the division of tasks, responsibilities, and the reporting line of employees.
- The internal regulation act of the *General Directorate of Road Transport Service* has not been updated and has not yet been approved by the Governing Council, but only by the General Director.
- The *Ministry of Agriculture and Rural Development* has operated on the basis of the internal regulation act approved in 2019, and then by the internal regulation act no. 4276 prot, dated 02.06.2021, which was approved 7 months later than the approval of the structural changes that required the update of the regulation.

- The absence of a regulation act for the management and administration of drugs is established through the audit in the *Hospital University Center "Nënë Tereza"* in order to follow up their distribution and use, minimizing the amount of expired goods.
- Regarding performance evaluation of employees, this process is carried out in the *Ministry of Internal Affairs*, but these evaluations are not periodic every 6 months.
- The job descriptions of the specialists in the *Public Health Institute* have been approved by the line ministry. Also, PHI has not drafted and approved an annual training program for employees.
- Regarding capacity building and strengthening: It is evident that the staff of the *Ministry of Internal Affairs* attends continuous trainings for raising the professional level at the School of Public Administration, as well as various trainings in the country and abroad, but it is found that there is no annual and strategic training program drafted and approved by the institution.
- The *Ministry of Defense* lacks a database for training programs. The institution has not developed any training for managers or staff who are responsible for financial management and control, including training related to internal control activities, drafting the risk register, etc.
- The administration of the *Hospital University Center "Nënë Tereza"* does not appear to have conducted any training programs for the period under audit.
- It is established that the *Ministry for Agriculture and Rural Development* has not drafted and approved an annual training program and an institutional strategy.
- It is established that, in the institution of the *Commissioner for Civil Service Supervision*, there have been no trainings for the members of the Strategic Management Group in the field of Risk Management and Financial Management and Control.
- The Human Resources unit of the *General Directorate of Probation Service* has not followed the trainings conducting process, as there is no data about the number of trainings and participants for maintenance and further development of professional competencies of employees.
- From the audit conducted in the *Ministry of Health and Social Protection*, it was found that the employees had not been trained in risk management.
- *Public Health Institute* had drawn up an institutional strategy in which the priorities and objectives were presented. However, from the audit conducted, it was found that the detailed action plans for achieving the objectives, which would determine the activities, the responsible persons, and the deadlines for the realization of each activity, were not drafted.
- It was found that the *General Directorate of Road Transport Service* had not drawn up the medium-term nor the long-term program, in which the priorities and strategic objectives of the institution should have been presented.
- It was found that the *Ministry of Defense* had not drawn up a detailed audit trail for their main procedures.
- It was found that the *Hospital University Center "Nënë Tereza"* had not prepared the maps of the processes.
- It was found that the *General Directorate of Probation Service* had not drawn up a detailed audit trail for their main procedures.
- The *Ministry of Agriculture and Rural Development* has drawn up work process maps and audit trails for some of the main work processes of the sector of finance and budget, but not for other structures, part of the institution.

- It was found that the Financial Management and Control Coordinator in the *Hospital University Center "Nënë Tereza"* was not appointed, and the position's responsibilities were appointed to the audit sector in the quality of an observer to provide input on issues related to financial management and control.
- It was found that there is no procedure in the *Ministry of Agriculture and Rural Development* for reporting violations of ethics legislation and for taking measures as a result of them.
- *Regarding the delegation of duties, it is established that the Hospital University Center "Nënë Tereza" does not have internal instructions or regulations on the procedures to be followed for the delegation of duties. From the audit, it is found that the maximum value of expenditure/ payment allowed to be ordered by the delegated official, the method of reporting, and the frequency of reporting have not been determined in the papers of delegation.*
- Regarding the financial management system in the *General Directorate of Probation Service*, it is found that the Self-Assessment questionnaires, Declaration, and Annual Report on the quality of the Internal Control System have not been drawn up.
- Through the audit conducted in the *Hospital University Center "Nënë Tereza"*, the lack of an integrated system for hospital management is found, with the aim of optimizing the existing systems of Alpha, SISP, and salaries' database (excel), at the institutional level, in order to follow up expenses, starting from the planning of budget, execution, and accounting.
- Through the audit conducted in the *Hospital University Center "Nënë Tereza"*, the lack of an archive for the storage of documentation is evident, with the documentation and files being self-administered by each separate unit, with the risk of it being damaged or lost.
- Through the audit conducted in the *General Directorate of Probation Service* Regarding, the digitalization of the probation service system, which was implemented in 2015, was established, but during the 2018-2020 period, it did not work. During the first 6 months of 2021, the complete elements of the active files for the persons under supervision are not placed in the electronic system, which is the responsibility of the local offices of the Probation Service.

RISK MANAGEMENT

- *The Ministry of Defense* has not updated its Strategy for Risk Management. The Risk Management Strategy is not accompanied by an action plan, and no monitoring of its results has been carried out in order to analyze and refresh controls aimed at minimizing risk. For the audit period, the Strategy for Risk Management has not been updated, contrary to Article 21, point 2, "Risk Management," which has determined that "To implement the activities presented..., the owner of the public entity, adopts a strategy, which is updated every three years, or whenever there are substantial changes in the risk environment. The authorizing officer analyzes and updates the controls aimed at minimizing the risk at least once a year. The Risk Management Strategy is not accompanied by an action plan, and no monitoring of its results has been carried out in order to analyze and refresh controls aimed at minimizing risk, as required by the Financial Management and Control Manual, paragraph 2.2.7 " Authorizing Officer".
- *The Public Health Institution* had not drawn up the risk register in contrary of Article 12, Point 3, of Law no. 10296, dated 07.08.2010 "On financial management and control", amended. where it is determined that "Executive officers of all levels of the public unit are responsible to the corresponding authorizing officer for: d) identification and creation of the risk register,

evaluation, control of risks that endanger the achievement of objectives and the successful implementation of the activities of the structures that they lead”.

- *The Ministry of Internal Affairs* had not drawn up a risk management strategy, which should also be updated every three years or whenever there are substantial changes in the risk environment.
- *The Hospital University Center “Nënë Tereza”* had not drawn up the Risk Management Strategy and the following work plan to address the risks that threaten the achievement of the institutional objectives, contrary to articles 8, point 8.a, 10 and 21, point 2, of law no. 10296 and chapter III, point 3.2 of the FMC Manual.
- It was found that in *Agency for Agricultural and Rural Development (ARDA)* had not carried out any training on risk management; a very important element in the activity of an institution, based on the requirements of the law on Financial Management and Control, as well as referring to chapter III, of "Financial Management and Control Manual" which encourages training in the field of using the accepted methodology in risk identification, analysis, and management.
- The risk management process is not formalized in a consolidated risk register for the *Ministry of Agriculture and Rural Development*. The risk management matrix and strategy had not been finalized, which brought deficiencies in risk monitoring, contrary to the legal provisions of article 8, point 8/a, of law no. 10296, dated 08.07.2010, "On financial management and control," amended.
- The *Commissioner for the Supervision of the Civil Service* had drawn up the risk register, but the risks presented in these documents have the same evaluation coefficient, regardless of the implemented controls, without confirming how it is processed and who are the risks owners. It is noted that no concrete measures have been foreseen to be taken by the responsible persons, according to the directorates, in order to address the risks and track them.
- Through the audit conducted in the *General Directorate of the State Police*, there was no document to establish the risk management group or to set the delegated coordinators in each unit. The audit also concluded that there had been no employee training carried out on risk management.

CONTROL ACTIVITIES

- Through the audit conducted in the *Public Health Institute*, it was established that the Head of the Budget and Finance Sector, who is the Implementation Officer, has been assigned as the person responsible for procurement, contrary to Law no. 10296, dated 08.07.2010 "On financial management and control," amended, article 12, point 3, letters "a" and "e," as well as DCM no. 914, dated 29.12.2014 "On the approval of public procurement rules," amended, Article 56. Public Health Institute has not completed any self-assessment questionnaire to identify internal control problems and to improve them, contrary to the requirements of Chapter III of the MFK Manual, approved by Order of the Minister of Finance no. 108, dated 17.11.2016.
- For the period under audit, the authorizing officer of the Public Health Institute has not drawn up the statement and report on the quality and state of the internal control systems, contrary to Article 18 point 1 of Law no. 10296, dated 08.07.2010 "On financial management and control," as amended, it is determined that “The authorizing officer of the public entity, on the basis of self-assessments, submits to the head of the public entity and the first authorizing officer a statement and the corresponding report on the quality and the state of the internal

control systems of the public entity it covers, for the previous year, no later than the end of February of the current year.”

MONITORING

- The obligation to monitor the internal control system in the *Hospital University Center “Nënë Tereza”* has not been determined, through a genuine document, affecting the performance of these systems. No monitoring has been carried out on the budget execution, the activity of the institution, the execution of projects, despite the drafting of the monthly reconciliation act with the treasury branch. From the audit, it is found that the entity did not monitor institutional activity for the audited period in fulfillment of its mission and duties. There is a lack of periodic reports which aim to identify issues that require concrete measures to be taken to address them.
- Regarding the follow-up of the implementation of programs in the *General Directorate of Road Transport Services*, no monitoring reports had been drawn up for each year. The monitoring of income and expenses during the year is based on statistics, which, since they are drawn up before the conclusion of the financial statements, do not coincide with the final results achieved.
- The lack of periodic monitoring and explanatory reports in the *Agency for Rural Development and Agriculture* affects the monitoring of the financial performance of the policy objectives of the targeted program and the products provided for in the annual budget. The audit concluded that the monitoring structures of the ARDA are insufficient, as this structure consists of only one responsible sector and four inspectors, while the number of beneficiaries from the national grant schemes is very high. Under these conditions, it is impossible to monitor in time all the subsidies that are allocated with the funds of the state budget.
- The audit found that some of the internal control systems in the *Ministry of Agriculture and Rural Development* did not work in harmony with each other. The control systems on the monitoring of lease contracts for agricultural land under the administration of the MARD have not been coordinated, for which, from the audit of the 2019-2020 financial statements, the entries for account 210 "*land, land, and terrain*" are recorded as 0.
- Regarding monitoring in the *Ministry of Agriculture and Rural Development*, it turns out that there are deficiencies in the monitoring of lease contracts for agricultural land as a result of a lack of human resources, which are not even planned in the organizational structure. These deficiencies are not even reflected in the self-assessment questionnaires and jeopardize the achievement of the unit's objectives.
- The audit found that the Agency for Rural Development and Agriculture does not have a monitoring plan with clear objectives, which indicates a lack of a decent analysis of the progress of the investments, based on the business plans previously presented by the beneficiaries.
- The audit found that no internal audit service had been performed in the *Commissioner for the Supervision of the Civil Service* to provide objective assurance and advice for the management of the entity as well as to help the public unit to achieve its objectives through disciplined and systematic activity.

From the local government units audit:

From the audit of the implementation of the legal provisions for Financial Management and Internal Control in the local self-government units, it is found that aspects of the components of

financial management and internal control work in a non-uniform and not harmonious way, some concepts still remain without understanding and some procedures of mandatory activities have not been carried out in compliance with the 5 components of financial management and control, as follows:

CONTROL ENVIRONMENT

- Procedures for reporting cases of irregularities, fraud, and corrupt actions are missing and are not included in the Internal Regulations acts of these institutions: *(Municipalities of Belsh, Devoll, Konispol, Vlorë, Mallakastër, Mat, Tepelenë, Kuçovë, etc.)*.
- There are no training programs on integrity and ethics *(Municipalities of Belsh, Devoll, Mat, Shkodër, Sarandë, etc.)*.
- Periodic monitoring reports of the Internal Control action plan are missing *(Municipalities of Belsh, Devoll, Vlorë, Mallakastër, Lezhë, Shkodër, Malësi e Madhe, Roskovec, Sarandë, etc.)*.
- In the Internal Regulation acts of the units, the tasks and objectives for each directorate are not clearly defined according to the functions they cover *(Municipalities of Belsh, Devoll, Konispol, Lezhë, Shkodër, Sarandë, Kuçovë, etc.)*. In the internal regulation acts of the units, there is an overlap of tasks, the performance of functions assigned by law is entrusted to other structures, etc., concrete and measurable objectives have not been defined for each directorate according to the functions they cover *(Municipalities of Malësi e Madhe, Berat, etc.)*.
- There is no training plan for the continuous professional development of the staff *(Municipalities of Belsh, Kolonjë, Devoll, Vlorë, Cërrik, Divjakë, Patos, Gramsh, Shkodër, Malësi e Madhe, Tepelenë, Këlcyrë, Kuçovë, Berat, etc.)*.
- The Internal Regulation acts do not include the functioning, duties, and responsibilities of the permanent and temporary Commissions and consultative structures of the Municipality, as well as the Strategic Management Group, with its duties and responsibilities, was not created *(Municipalities of Belsh, Devoll, Këlcyrë, etc.)*.
- They have not approved the code of ethics for the administration *(Municipalities of Kolonjë, Cërrik, Sarandë, etc.)*.
- The Strategic Management Group has not established the rules for monitoring the internal financial control system. It has not followed the realization of the objectives of the Municipality's activity. The meetings of SMG members have not been documented *(Municipalities of Vlorë, Lezhë, Cërrik, Mat, Krujë, Rrogozhinë, Malësi e Madhe, Pogradec, Tepelenë, Sarandë, etc.)*.
- An effective system of financial management and internal control has not been set up, not drafting a complete framework of written acts for this purpose *(Municipalities of Divjakë, Patos, Krujë, Pogradec, etc.)*.
- In the process of dismissals and taking office, no commission has been set up by the current holder for the inventory of files and documents; there are no practices to document the handing over or taking office *(Municipalities of Gramsh, Këlcyrë, Has, etc.)*.

RISK MANAGEMENT

- There is no approved annual operational action plan for achieving medium-term policy goals. In some cases, there is a discrepancy between the medium-term objectives and the objectives foreseen in the unit's annual budget *(Municipalities of Belsh, Devoll, Krujë, etc.)*.

- There are no internal procedures or evidence on risk management systems and processes (*Municipalities of Belsh, Devoll, Konispol, Divjakë, Gramsh, etc.*).
- A risk register has not been drawn up at the municipality level, where risks can be identified and assessed for all directorates, as well as a risk management plan (*Municipalities of Belsh, Kolonjë, Devoll, Konispol, Cërrik, Tepelenë, etc.*).
- The risk register is not regularly updated (*Municipality of Shkodër*).
- A fraud risk assessment has not been done, as there are no policies and procedures related to fraud. No high-level risk monitoring evidence has been drawn up, not periodically assessing the municipality's exposure to fraudulent activity. There is no evidence of defined levels of risk tolerance (*Municipalities of Vlorë, Lezhë, Cërrik, Mat, Sarandë, etc.*).
- The risk coordinator has not been appointed, and the risk working group has not been set up (*Municipalities of Lezhë, Malësi e Madhe, Tepelën, Këlcyrë, etc.*).
- The Risk Management Strategy has not been approved (*Municipalities of Konispol, Divjakë, Patos, Cërrik, Gramsh, Shkodër, Malësi e Madhe, Roskovec, Pogradec, Këlcyrë, Kuçovo, Berat, Has, etc.*).
- There is no operational risk reporting, due to incomplete structures (*Municipalities of Shkodër, etc.*).
- There is a lack of documentation of risk monitoring by each manager of the directorates near the municipality (*Municipalities of Shkodër, Sarandë, etc.*).
- The operation of the risk management process is not addressed in the Internal Audit reports (*Municipality of Lezhë, etc.*).

CONTROL ACTIVITIES

- There is no investment plan for Information Technology (IT) programs. There is no procedure for maintaining asset records. There is no IT risk management plan for data recovery in case of disasters (*Municipalities of Belsh, Devoll, Konispol, Vlora, Lezhë, Cërrik, Divjakë, Patos, Mat, Malësi e Madhe, Roskovec, Saranda, Këlcyrë, Këlcyrë, Kukës,*).
- The audit trail for detailing the main procedures of the unit has not been approved (*Municipalities of Kolonjë, Divjakë, Tepelenë, Sarandë, etc.*).
- Written and specific procedures for evaluation, selection, costing, and monitoring of investments are missing (*Municipality of Shkodër, etc.*).
- There are no approved rules for electronic communication or different online systems, also due to the fact that there has been no progress regarding the use of information technology in the exercise of the activity, (*Municipality of Tepelenë, etc.*).

INFORMATION AND COMMUNICATION

- The reporting system does not provide complete information for monitoring progress in achieving the objectives of the institution as a whole and of its dependent units. There are no periodic reports or annual publications on the performance of the municipality in relation to the services offered to the public (*Municipalities of Belsh, Devoll, Konispol, Vlorë, Lezhë, Mat, Tepelënë, Sarandë, etc.*).
- The institution's communication system is not efficient. There is no special procedure for the collection and documentation of errors, complaints for their analysis, identification of causes, and for the elimination of problems arising during the performance of tasks (*Municipalities of Himarë, Fier, Sarandë, etc.*).

- There are no periodic reports or annual publications on the performance of the municipality in relation to the services offered to the public (*Municipalities of Devoll, Vlorë, Mat, etc.*).
- Consultations with the public and stakeholders are not carried out regularly, and in cases where they are carried out, the complete public consultation document is missing (*Municipality of Mat, etc.*).
- The transparency program is missing, as is the register with citizens' requests and responses (*Municipality of Saranda, etc.*).

MONITORING

- Managers' reports on the fulfillment of objectives based on impact and output are missing (*Municipalities of Belsh, Devoll, Konispol, Vlora, Lezhë, Mat, etc.*).
- There are no approved internal rules for monitoring the Financial Management and Control System. The evaluation activities of the unit are not in accordance with the resources and are partially adequate to fulfill the goals for which they were established (*Municipalities of Belsh, Devoll, Konispol, Vlora, Lezhë, Mat, Shkodër, Roskovec, Tepelenë, Sarandë, etc.*).
- The Internal Audit has not provided evaluations for the internal control system (*Municipalities of Devoll, Vlora, Lezhë, Mat, etc.*).
- There is no internal audit sector, therefore, there are no assessments for the internal control system (*Municipalities of Belsh, Këlcyrë, etc.*).
- The Internal Audit Unit lacks specialists in reference to the approved structure (*Municipality of Cologne, etc.*).
- The monitoring reports have not been periodically sent to the Ministry of Finance and Economy, and their drafting is not in the correct format, (*Municipality of Cërrik, etc.*).
- The monitoring of progress related to the achievement of objectives and the analysis of the causes of possible failures by the heads of budget programs is not associated with the monitoring of control activities before the fact and after the fact in relation to legality and regularity, taking into account the principles of economization, of efficiency, and effectiveness (*Municipalities of Shkodër, Malësi e Madhe, Pogradec, Këlcyrë, etc.*).
- The audit trail for the main activity processes has not been drawn up (*Municipalities of Pogradec, Has, Kukës, etc.*).

INTERNAL AUDIT UNIT FUNCTION

- There is no functional structure for the performance of the internal audit service (*Municipalities of Belsh, Konispol, Këlcyrë, Kuçovë, Has, etc.*).
- Specialists of the Internal Audit Unit are not all qualified/certified/trained according to the provisions of law no. 114/2015 "On internal audit in the public sector" and DCM no. 83, dated 03.02.2016 "On the approval of the criteria for the creation of the Internal Audit Unit in the public sector", (*Municipalities of Maliq, Mallakastër, Patos, Mat, Krujë, Shkodër, Roskovec, Kukës, etc.*). In the audit files, there is a lack of documents certifying the completion of all stages of the audit, from the planning of the engagement for the audit to the evaluation of the quality of the audit, contrary to the provisions of the Internal Audit Manual (*Municipalities of Kolonjë, Lezhë, Mirdita, Roskovec, Tepelenë, Saranda, etc.*).
- The audited units generally did not present an action plan for the implementation of the recommendations, and their follow-up was not done by the Audit Unit, leading to a lack of information regarding the status of the recommendations left (*Municipalities of Kolonje, Devoll,*

Vlorë, Patos, Mat, Krujë, Malësi e Madhe, Roskovec, Kukës, etc.). No audit engagements have been undertaken in high-risk areas such as procurement, the activity of the Finance Directorate, the Directorate of Planning and Territorial Development, the Directorate of Revenue, or Asset Management (*Municipalities of Kolonje, Fier, Devoll, Vlora, Mallakastër, Lezhë, Divjakë, Mat, Gramsh, Shkodër, Malësi e Madhe, Roskovec, Saranda, Kukës, etc.*).

- Internal Audit Units do not operate with the correct number of employees (*Municipalities of Kolonje, Himarë, Devoll, Mallakastër, Cërrik, Divjakë, Patos, Berat, Kukës, etc.*).
- The audit plan has not been implemented fully 100% (*Municipalities of Himarë, Mallakastër, Lezhë, Cërrik, Patos, Kuçovë, Berat, etc.*).
- An analysis and risk assessment was not carried out in the drafting of the annual audit plan, as well as during the implementation of the audit, the stages and procedures of the audit were not carried out (*Municipalities of Himarë, Kuçovë, etc.*).
- In the audits carried out for the implementation of the recommendations, no opinion or analysis was given on the reasons for non-implementation, and the measures to be taken by the management of the audited entity for their implementation (*Lezhë Municipality, etc.*) are not defined.
- No audits have been conducted in order to evaluate and monitor the operation of the financial management and internal control system, not providing assurance and advice to the public entity's owner if this system has been set up in accordance with the rules, standards, and principles of sound financial management, (*Municipalities of Shkodër, Malësi e Madhe, Roskovec, etc.*).
- The coherent internal audit files of public units are not archived in the archive of the local unit (*Municipalities of Shkodër, Malësi e Madhe, etc.*).
- There is no training program, and no training has been organized for the Internal Audit Unit specialists (*Municipalities of Pogradec, etc.*).
- The Internal Audit Card has not been sent to the Ministry of Finance and Economy and the General Directorate of Harmonization of Internal Audit (*Municipalities of Pogradec, Kuçovë, etc.*).
- A program for ensuring the quality of the Internal Audit Unit (*Municipalities of Pogradec, etc.*) has not been drafted and approved.

H.5. ALSAI's audit opinions as an indicator of the quality of internal control systems

ALSAI for the year 2021, has completed a significant number of financial and compliance audits. Audits were conducted based on professional standards and up-to-date financial and compliance audit methodologies. Based on this methodology, ALSAI has provided audit opinions on Compliance and Financial Statements, drawing conclusions regarding compliance with the legal framework in force for each audited entity. The audit opinions on Compliance Audits for state institutions are presented in the table below.

Table no. 76 Financial, Compliance, and Combined Audit Opinions 2021

| Audited institutions | Unmodified opinion | Qualified opinion | Adverse opinion | In total |
|----------------------------|--------------------|-------------------|-----------------|----------|
| Central Level Institutions | 5 | 13 | 1 | 19 |
| In total | 28 | 94 | 23 | 145 |

Source: ALSAI

As can be seen from table no. 76, from audits in the state institutions of central and local government, the following results have been obtained: 28 cases of unmodified opinions as well as 117 cases of modified opinions (of which: 94 qualified opinions and 23 were adverse opinions).

This indicator demonstrates, among other things, the weaknesses of the internal control system in the general government units, which according to the consolidated report on the implementation of the state budget for 2021, drawn up by the Ministry responsible for finance, was assessed as "partially effective. "

ANNEXES

1. The list of audits that served for the drafting of the Budget Execution Report

| | |
|----|--|
| 1 | Bank of Albania |
| 2 | Ministry of Finance and Economy |
| 3 | The General Directorate of the Budget, the General Directorate of the Treasury and the Directorate of Public Debt and Coordination of Foreign Aid in the Ministry of Finance and Economy |
| 4 | Directorate of Harmonization of Public Internal Financial Control in the Ministry of Finance and Economy |
| 5 | Gambling Supervisory Authority |
| 6 | General Directorate of Taxes |
| 7 | General Directorate of Customs |
| 8 | Mandatory Health Care Insurance Fund |
| 9 | Social Security Institute |
| 10 | Tirana Regional Tax Directorate |
| 11 | Durrës Customs Branch |
| 12 | Tiranë Customs Branch |
| 13 | Agrokredit SHA |
| 14 | Korçë Regional Tax Directorate |
| 15 | Tirana Treasury Branch |
| 16 | General Directorate of Police |
| 17 | Ministry of Agriculture and Rural Development |
| 18 | Ministry of Education, Sports and Youth |
| 19 | General Directorate of Probation Service |
| 20 | General Directorate of Road Transport |
| 21 | Ministry of Defense |
| 22 | Ministry of Culture and Circus of Tirana |
| 23 | Ministry of Health and Social Protection, State Social Service |
| 24 | The National Agency of Natural Resources |
| 25 | Ministry of Culture |
| 26 | Ministry of Infrastructure and Energy |
| 27 | Albanian Development Fund |
| 28 | Directorate of Government Services |
| 29 | Residential Social Care Institutions for Children |
| 30 | Rrogozhinë Municipality |
| 31 | Belsh Municipality |
| 32 | Kamëz Municipality |
| 33 | Himarë Municipality |
| 34 | Vau Dejës Municipality |
| 35 | Fier Municipality |
| 36 | Vlorë Municipality |
| 37 | Kolonjë Municipality |
| 38 | Poliçan Municipality |
| 39 | Cërrik Municipality |
| 40 | Patos Municipality |
| 41 | Devoll Municipality |
| 42 | Maliq Municipality |
| 43 | Mat Municipality |

| | |
|----|---|
| 44 | Lezhë Municipality |
| 45 | Mirditë Municipality |
| 46 | Mallakastër Municipality |
| 47 | Konispol Municipality |
| 48 | Shkodër Municipality |
| 49 | Malësi e Madhe Municipality |
| 50 | Roskovec Municipality |
| 51 | Gramsh Municipality |
| 52 | Krujë Municipality |
| 53 | Pogradec Municipality |
| 54 | Tepelenë Municipality |
| 55 | Sarandë Municipality |
| 56 | Berat Municipality |
| 57 | Kuçovë Municipality |
| 58 | Këlcyrë Municipality |
| 59 | Elbasan Municipality |
| 60 | Vorë Municipality |
| 61 | Përrenjas Municipality |
| 62 | Korçë Municipality |
| 63 | Dibër Municipality |
| 64 | Shijak Municipality |
| 65 | Dimal Municipality |
| 66 | Tropojë Municipality |
| 67 | Librazhd Municipality |
| 68 | Kavajë Municipality |
| 69 | Kukës Municipality |
| 70 | Has Municipality |
| 71 | Lushnjë Municipality |
| 72 | Thematic audit Financial statements Cërrik Municipality |
| 73 | Thematic audit Financial statements Devoll Municipality |
| 74 | Thematic audit Financial statements Maliq Municipality |
| 75 | Thematic audit Financial statements Mat Municipality |
| 76 | Thematic audit Financial statements Mirditë Municipality |
| 77 | Thematic audit Financial statements Patos Municipality |
| 78 | Thematic audit Financial statements Roskovec Municipality |
| 79 | Thematic audit Financial statements Sarandë Municipality |
| 80 | National Civil Defense Agency |
| 81 | National Agency of Water-Sewage and Waste Infrastructure |
| 82 | Obstetrics and Gynecology University Hospital "Mbretëresha Geraldinë" |
| 83 | Vlora Psychiatric Hospital |
| 84 | Durrës Regional Hospital |
| 85 | Vlora Regional Hospital |
| 86 | "Shefqet Ndroqi" University Hospital |
| 87 | Shkodër Regional Hospital |
| 88 | Kurbin Water Supply and Sewerage |
| 89 | National Housing Authority |
| 90 | Civil Aviation Authority |
| 91 | Vlorë Water Supply and Sewerage |
| 92 | Albcontrol |

| | |
|-----|--|
| 93 | AlbGaz |
| 94 | Elbasan Water Supply and Sewerage |
| 95 | Gjirokastrë Water Supply and Sewerage |
| 96 | Shkodër Water Supply and Sewerage |
| 97 | Sarandë Water Supply and Sewerage |
| 98 | Fier Water Supply and Sewerage |
| 99 | Sarandë Hospital & Municipality |
| 100 | Albanian Road Authority "Construction of By-Pass Fier & Vlorë" Project |
| 101 | Albanian Road Authority "Construction of Qukës-Qafë Plloç" Project |
| 102 | Albanian Development Fund, "Connectivity of Regional and Local roads" Project, "Reconstruction of Ujë i Ftohtë-Orikum road and construction of 2 by-passes" investment |
| 103 | Albanian Development Fund "Water supply of rural areas III" Project |
| 104 | Ministry of Health and Social Protection "Improving the Health System" Project |
| 105 | Albanian Development Fund Project " Integrated Urban and Tourism Development" |
| 106 | TSO, " Energy Efficiency, Program for the Electricity Transmission Sector " Project |
| 107 | Ministry of Health and Social Protection "Modernization of Social Assistance" Project |
| 108 | IT Audit: National Food Authority |
| 109 | IT Audit: Public Procurement Agency |
| 110 | IT Audit: Institute of Food Safety and Veterinary Medicine |
| 111 | IT Audit: Albanian Post Office |
| 112 | IT Audit: State Cadaster Agency |
| 113 | Performance Audit: The effectiveness of the management of the RUDA Livestock system |
| 114 | Performance Audit: Water resources management |
| 115 | Local Directorate of the State Cadaster Agency Kavajë |
| 116 | Local Directorate of the State Cadaster Agency Kukës |
| 117 | Local Directorate of the State Cadaster Rural Agency 1 |
| 118 | Local Directorate of the State Cadaster Rural Agency 2 |
| 119 | Regional Environment Agency Tiranë-Durrës -Dibër |
| 120 | Regional Environment Agency Berat-Elbasan-Korçë |
| 121 | State Inspectorate of Market Supervision |

2. Summary of economic damage and negative financial effect for the 2021 budget

/000 ALL

| I. | Missing revenues on the state budget | 2021 |
|---|---|-------------------|
| 1 | From violations in the implementation of tax legislation | 45,383,203 |
| 2 | From violations in the implementation of the customs code | 846,142 |
| 3 | From the mismanagement of state property provided with rent and concessions | 7,273 |
| 4 | From the violations in implementation of the legislations on local taxes and fees | 89,591 |
| 5 | Others | 1,000 |
| The total amount of missing revenue in the execution of the state budget, 2021 | | 46,327,209 |

/000 ALL


| II. | Economic damage to the state budget in expenditures | 2021 |
|--|--|----------------|
| 1 | In operating expenses | 9,155 |
| 2 | In investment spending | 253,565 |
| 3 | In the implementation of projects with foreign financing | 8,131 |
| 4 | Others | 6,162 |
| Total damage in expenditures in the execution of the state budget, 2021 | | 277,013 |

/000 ALL

| I. | Negative effects on budget revenues | 2021 |
|---|---|------------------|
| 1 | From violations in the implementation of tax legislation | 183,895 |
| 2 | From violations in the implementation of the customs code | 657,648 |
| 3 | From the mismanagement of state property provided with rent and concessions | 38,046 |
| 4 | From the violations in implementation of the legislations on local taxes and fees | 549,628 |
| 5 | Others | 96,102 |
| Total effects in the execution of the state budget, 2021 | | 1,525,319 |

/000 ALL

| II. | Negative effects on budget expenditures | 2021 |
|---|--|-------------------|
| 1 | In expenses for wages, insurance and bonuses | 52,139 |
| 2 | In operating expenses | 132,425 |
| 3 | In investment spending | 2,731,049 |
| 4 | In the implementation of projects with foreign financing | 549,877 |
| 5 | Others | 33,303,859 |
| Total effects in the execution of the state budget, 2021 | | 36,769,349 |



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